

Charter Hall Office Management Limited

ABN 75 006 765 206

AFS Licence No. 247075

as responsible entity of

Charter Hall Office REIT

## **ASX/MEDIA ANNOUNCEMENT**

### **EXPLANATORY MEMORANDUM AND NOTICE OF MEETING**

Monday, 13 February 2012

Charter Hall Office REIT (ASX:CQO) (CQO) today announced the release of the attached Notice of Meeting and Explanatory Memorandum in respect of a unitholder meeting to consider the proposal by Reco Ambrosia Pte Ltd (an affiliate of Government of Singapore Investment Corporation Pte Ltd), the Public Sector Pension Investment Board of Canada and a member of the Charter Hall Group (ASX:CHC) (together, the Bidders) to acquire all the units in CQO except certain of those held by the Bidders or their associates.

A copy of the Explanatory Memorandum is expected to be mailed to CQO unitholders on 14 February 2012.

The Independent Directors of Charter Hall Office Management Limited unanimously recommend that CQO unitholders vote in favour of the scheme resolutions, in the absence of a superior proposal.

The meeting to vote on the proposal will be held on 15 March 2012 at Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney. A copy of the Explanatory Memorandum is attached to this announcement.

**Unitholders should read the Explanatory Memorandum thoroughly and if further information is required, please visit [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo) or contact the CQO investor information line on 1300 303 063 (or if calling from overseas +61 2 8280 7134).**

**Media**

**Rachel Mornington-West**

Head of Marketing and Communications

Charter Hall Office REIT

Tel: +61 2 8908 4093 or +61 434 604 590

rachel.mornington-west@charterhall.com.au

**Paula Hannaford**

Kreab Gavin Anderson

Tel: +61 2 9552 4499 or +61 413 940 180

phannaford@kreabgavinanderson.com

**About Charter Hall Office REIT**

Charter Hall Office REIT is a leading listed real estate investment trust focused on investing in high grade office buildings predominantly located in major business districts across Australia and the United States (the US portfolio is under contract for sale). A customer focused approach to asset management drives the leasing and refurbishment initiatives with a view to maximising returns of the underlying assets.

Charter Hall Office REIT is managed by Charter Hall Group (ASX:CHC) is one of Australia's leading fully integrated property groups, with 20 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has over \$10 billion of funds under management across the office, retail, industrial and residential sectors. The Group has offices in Sydney, Melbourne, Brisbane, Adelaide, Perth, Warsaw and Chicago.

The Group's success is underpinned by a highly skilled and motivated team with diverse expertise across property sectors and risk-return profiles. Sustainability is a key element of its business approach and by ensuring its actions are commercially sound and make a difference to its people, customers and the environment, Charter Hall can make a positive impact for its investors, the community and the Group.

For further information on Charter Hall Group and Charter Hall Office REIT go to [www.charterhall.com.au](http://www.charterhall.com.au)

# Charter Hall Office REIT

## Explanatory Memorandum

In relation to a recommended proposal for the acquisition by the Bidders of all Scheme Units held by Scheme Unitholders



**YOUR INDEPENDENT DIRECTORS UNANIMOUSLY RECOMMEND  
THAT YOU VOTE IN FAVOUR OF THE SCHEME RESOLUTIONS, IN  
THE ABSENCE OF A SUPERIOR PROPOSAL**

This is an important document and requires your immediate attention. You should read this document carefully and in its entirety before deciding whether or not to vote in favour of the resolutions to approve the Proposal. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

If, after reading this Explanatory Memorandum, you have any questions about the Proposal, how to vote or regarding the number of CQO Units you hold, **please call the Unitholder information line on 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia)** Monday to Friday between 8.30am and 7.30pm (Sydney time).

If you have sold all of your CQO Units, please disregard this document.





# Important notices

This Explanatory Memorandum is issued by Charter Hall Office Management Limited (ABN 75 006 765 206) in its capacity as responsible entity of Charter Hall Office REIT (ARSN 093 016 838).

## Defined Terms

Capitalised terms used in this Explanatory Memorandum are defined in the Glossary in section 8 of this Explanatory Memorandum.

## This Explanatory Memorandum

This Explanatory Memorandum provides Unitholders with information about the proposed acquisition by the Bidders of all CQO Units on issue as at the Record Date (other than those CQO Units held by the Excluded Unitholders at that date) and associated payments and distributions to be made to Unitholders, which together are referred to in this Explanatory Memorandum as the Proposal. It also provides Unitholders with information about the RE Fees Resolution. The Notice of Meeting is included as Attachment A and a copy of the proposed Supplemental Deed (to implement the Proposal) is set out in Attachment B to this Explanatory Memorandum.

You should read this Explanatory Memorandum carefully and in its entirety before making a decision as to how to vote on the Resolutions to be considered at the Meeting. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

## Responsibility for information

- (a) CHOML has provided, and is responsible for, the CQO Information in this Explanatory Memorandum. No Bidder or their respective directors, officers or Advisers assumes any responsibility for the accuracy or completeness of any CQO Information.
- (b) Each Bidder has provided, and is responsible for its Bidder Information in this Explanatory Memorandum. None of CHOML or CQO, or any of their respective directors, officers and Advisers, assumes any responsibility for the accuracy or completeness of the Bidder Information.
- (c) Greenwoods & Freehills has provided and is responsible for the information contained in section 6 of this Explanatory Memorandum. None of CHOML, CQO or any Bidder, or any of their respective directors, officers and Advisers, assumes any responsibility for the accuracy or completeness of the information contained in section 6 of this Explanatory Memorandum. Greenwoods & Freehills does not assume any responsibility for the accuracy or completeness of the information contained in this Explanatory Memorandum other than that contained in section 6.
- (d) The Independent Expert has provided and is responsible for the Independent Expert's Report included as Attachment F to this Explanatory Memorandum. None of CHOML, CQO or any Bidder, or any of their respective directors, officers and Advisers, assumes any responsibility for the accuracy or completeness of the Independent Expert's Report except in relation to information given by them to the Independent Expert. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Explanatory Memorandum other than that contained in the Independent Expert's Report.

## Investment decisions

This Explanatory Memorandum does not constitute financial product advice.

This Explanatory Memorandum has been prepared without reference to the investment objectives, financial situation or particular needs of any Unitholder or any other person. This Explanatory Memorandum should not be relied on as the sole basis for any investment decision. Independent financial and taxation advice should be sought before making any investment decision in relation to your CQO Units.

## ASIC and ASX involvement

A copy of this Explanatory Memorandum has been provided to ASIC for the purposes of Regulatory Guide 74.

Neither ASIC nor any of its officers take any responsibility for the contents of this Explanatory Memorandum.

A copy of this Explanatory Memorandum has been provided to ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum.

## Court involvement

The First Judicial Advice in respect of the convening of the Meeting is not and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Proposal. In particular, the First Judicial Advice does not mean that the Court:

- (a) has formed any view as to the merits of the Proposal or as to how Unitholders should vote (on this matter Unitholders must reach their own decision); or
- (b) has prepared, or is responsible for the content of, this Explanatory Memorandum.

## Disclosure regarding forward looking statements

This Explanatory Memorandum contains both historical and forward-looking statements in connection with CHOML, CQO, the Bidders and other participants in the Proposal.

The forward-looking statements in this Explanatory Memorandum are not based on historical facts, but rather reflect the current views of CHOML or, in relation to the Bidder Information, the relevant Bidder, held only as at the date of this Explanatory Memorandum concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe CHOML's, CQO's, any Bidder's and any other participant's objectives, plans, goals or expectations are or may be forward-looking statements.

Although each Bidder believes that the views reflected in any forward-looking statements included in its Bidder Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although CHOML believes that the views reflected in any forward-looking statements in this Explanatory Memorandum (other than the Bidder Information, the information in section 6 and the information in Attachment F, for which CHOML bears no responsibility) have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either CHOML's, CQO's or a Bidder's actual results, performance or achievements, or any other estimated amounts (including the amounts of US Sales Distributions and Scheme Contingent Consideration) to differ materially from the anticipated results, performance, achievements or amounts expressed, projected or implied by these forward-looking statements. Deviations as to future results, performance and achievements are both normal and to be expected. Unitholders should review carefully all of the information included in this Explanatory Memorandum. The forward-looking statements included in this Explanatory Memorandum are made only as of the date of this Explanatory Memorandum. None of CQO, CHOML, or any Bidder or any of their respective directors, officers and Advisers gives any representation, assurance or guarantee to Unitholders that any forward looking statements will actually occur or be achieved. Unitholders are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, none of CQO, CHOML, or any Bidder or any of their respective directors, officers and Advisers gives any undertaking to update or revise any forward-looking statements after the date of this Explanatory Memorandum to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

## Privacy and personal information

CHOML will need to collect personal information to implement the Proposal. The personal information may include the names, contact details and details of holdings of Unitholders, plus contact details of individuals appointed by Unitholders as proxies, corporate representatives or attorneys at the Meeting. The collection of some of this information is required or authorised by the Corporations Act. Unitholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them and can contact the Registry by calling 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia) Monday to Friday between 8.30am and 7.30pm, Sydney time if they wish to exercise those rights.

The information may be disclosed to print and mail service providers, and to CHOML, CQO and the Bidders and their respective related bodies corporate, affiliates and Advisers to the extent necessary to effect the Proposal. If the information outlined above is not collected, CHOML and the Bidders may be hindered in, or prevented from, conducting the Meeting or implementing the Proposal effectively or at all. Unitholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meeting should inform that individual of the matters outlined above.

#### **Notice to persons outside Australia**

This Explanatory Memorandum and the Proposal are subject to Australian disclosure requirements, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared by management of CHOML in accordance with Australian equivalents to International Financial Reporting Standards, which may differ from generally accepted accounting principles in other jurisdictions (unless otherwise specified). CQO expects to release to ASX its half-year financial statements for the period ending 31 December 2011 on 21 February 2012. A copy of these will be available on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo) on 21 February 2012.

This Explanatory Memorandum and the Proposal do not in any way constitute an offer of securities in any jurisdiction.

#### **Warning for persons inside Hong Kong**

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Proposal. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document does not constitute an offer or invitation to the public in Hong Kong to subscribe for or dispose of any securities or structured products.

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, this document or any invitation or document relating to such securities or structured products, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities or structured products which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder. Copies of this document may be issued to a limited number of persons in Hong Kong in a manner which does not constitute an issue, circulation or distribution of this document, or any offer or invitation in respect of such securities or structured products, to the public in Hong Kong. Only the person to whom a copy of this document has been issued may take action in response to this document. No person to whom a copy of this document is issued may issue, circulate or distribute this document in Hong Kong or make or give a copy of this document to any other person.

#### **Notice to persons inside Papua New Guinea**

This Explanatory Memorandum has not been registered as a prospectus in Papua New Guinea and no notice of the proposed offer will be submitted to the Registrar of Companies. No other documents are being lodged with the Registrar of Companies or the Papua New Guinea Securities Commission in respect of the proposed offer. The proposed offer is not and should not be construed as an offer of securities to the public in Papua New Guinea and, accordingly, most (if not all) of the provisions of Part IV of the Securities Act will not apply to the proposed offer. This Explanatory Memorandum is distributed in Papua New Guinea for information purposes only. No securities are being offered for subscription in Papua New Guinea pursuant to this Explanatory Memorandum.

#### **Effect of rounding**

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Memorandum.

#### **Times and dates**

Unless otherwise stated, all times referred to in this Explanatory Memorandum are times in Sydney, Australia. All dates following the date of the Meeting are indicative only and may change as they are subject to the judicial advice process, ASX approval and the satisfaction or, where applicable, waiver of the conditions precedent to the implementation of the Proposal.

#### **Date**

This Explanatory Memorandum is dated 10 February 2012 and all information in this Explanatory Memorandum is valid as at that date unless otherwise stated.





175 EAGLE STREET, BRISBANE QLD

## Frequently used terms

Set out below are some key terms used throughout this Explanatory Memorandum, together with an explanation of what they mean. A full glossary of all the defined terms used in this Explanatory Memorandum is set out in section 8.

### Types of Unitholders

- ◆ You are a **Unitholder** if you hold units in CQO.
- ◆ You are a **Scheme Unitholder** if you are:
  - a Unitholder (i.e. you hold units in CQO) on the Record Date, which is currently expected to be 7:00pm on Friday 23 March, 2012; and
  - not a Bidder or an Associate of a Bidder.<sup>1</sup>

If you are a Scheme Unitholder, you are also an **Eligible Unitholder**.

- ◆ The Bidders and their Associates are **Excluded Unitholders**.<sup>2</sup> They are not disposing of their CQO Units.
- ◆ Both Scheme Unitholders and Excluded Unitholders are **Eligible Unitholders**.

### References to CQO Units in this Explanatory Memorandum

- ◆ The term **CQO Units** refers to all units in CQO, whoever they are held by, from time to time.
- ◆ When the term **Scheme Units** is used, that refers only to the units in CQO the Bidders are acquiring under the Proposal. The term Scheme Units does not include the CQO Units held by the Bidders or their Associates.<sup>3</sup>

### Types of payments

There are a number of payments to which Scheme Unitholders will become entitled if the Proposal is implemented. These are outlined in the Chairman's letter and section 1 of this Explanatory Memorandum but you must read section 3 for full details of such payments.

1. Other than PSP, in respect of the 5,218,676 CQO Units it holds and JP Morgan Nominees Australia Limited in respect of 1,295,000 CQO Units it holds as custodian for the Charter Hall Property Securities Fund. A more detailed definition of Excluded Unitholders is in the glossary in section 8.  
2. As per note 1.  
3. Other than the 5,218,676 CQO Units held by PSP and the 1,295,000 CQO Units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund, which will be acquired by the Bidders under the Proposal.



# Contents

Important Notices	02
Frequently used terms	05
Chairman's Letter	07
What are the key dates?	10
1. Proposal	14
2. What are the reasons that you might vote FOR or AGAINST the Proposal?	24
3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective	28
4. Information about CQO	40
5. Information about the Bidders	50
6. Taxation implications for Unitholders	54
7. Additional information	64
8. Glossary	70
Attachment A - Notice of Meeting	80
Attachment B – Supplemental Deed	84
Attachment C - Supplemental Deed (RE Fees)	98
Attachment D – Bidder Deed Poll	106
Attachment E – Escrow Agent Deed Poll	118
Attachment F - Independent Expert's Report	126
Corporate Directory	187

**The Explanatory Memorandum in relation  
to the meeting of Charter Hall Office REIT  
Unitholders to be held at 10.00 am on  
15 March 2012, in Ballroom 1,  
The Westin Sydney, No.1 Martin Place,  
Sydney, NSW 2000**



# Chairman's Letter

10 February 2012

Dear Unitholder,

Further to my letter of 20 January 2012 informing you of developments regarding your investment in Charter Hall Office REIT (CQO), this Explanatory Memorandum describes in detail the terms of the Proposal received from the Bidders to acquire your units, and provides you with information to assist you in your decision about whether or not to approve the Proposal.

This document also provides further detail supporting the unanimous recommendation of the Independent Directors Committee (IDC) of Charter Hall Office Management Limited (CHOML) that CQO unitholders approve the Proposal in the absence of a Superior Proposal, and includes an Independent Expert's Report which has found the Proposal to be fair and reasonable to, and in the best interests of, Scheme Unitholders in the absence of a Superior Proposal.<sup>4</sup>

On 31 December 2011, CHOML, the responsible entity of CQO, entered into an agreement with the Bidders, comprising Reco Ambrosia Pte Ltd (an affiliate of Government of Singapore Investment Corporation (Realty) Pte Ltd), the Public Sector Pension Investment Board of Canada and a member of Charter Hall Group, in relation to a proposed trust scheme under which the Bidders (or their Nominees) will acquire all the units in CQO except certain of those held by Bidders and their Associates, subject to the approval of Unitholders and certain other conditions.

The decision by the IDC to recommend this Proposal to unitholders followed four months of extensive negotiation and consideration of a range of strategic options to maximise value for CQO unitholders. Following this process, the IDC concluded that the Bidders' proposal offers the most compelling and certain value proposition currently available to unitholders.

## The Proposal: background and overview

Shortly after the announcement by CHOML of the US Asset Sale in August 2011, a consortium approached CHOML with an indicative proposal to acquire CQO, assuming that CQO's US assets had been sold, and therefore the proposal was to acquire CQO's Australian assets. In the months following, the Independent Directors negotiated with the consortium to realise the highest price available for CQO's Australian portfolio, with CQO unitholders to receive the economic benefit of the US Sale Proceeds (net of certain contingent liabilities and other costs), which culminated in the entry into the Scheme Implementation Agreement under which the parties have agreed to pursue the Proposal.

Under the Proposal, Scheme Unitholders will receive \$2.49 in cash per Scheme Unit referable to CQO's Australian Assets on or as soon as reasonably practicable after the Implementation Date (which is currently expected to be 30 March 2012). This is a discount of 3.9% to the Pro Forma Australian Unaudited NTA as at 31 December 2011 of \$2.59 and a discount of 2.4% to the Pro Forma Australian Unaudited Total Assets,<sup>5</sup> subject to the Proposal being approved by Unitholders. Scheme Unitholders will receive this amount through a combination of a payment from the Bidders (the Scheme Cash Consideration, estimated to be \$1.84 per Scheme Unit) and special distributions to be made by CHOML (the Implementation Distributions, estimated to be \$0.65 per Scheme Unit in total). Although the respective values of the Scheme Cash Consideration and Implementation Distributions cannot be precisely calculated now, they will always be valued at \$2.49 in total.<sup>6</sup>

Regardless of the outcome of the Proposal, Unitholders will receive one or more payments in respect of the US Sale Proceeds. The US Sale Proceeds are currently estimated at \$1.11 per CQO unit.<sup>7</sup> Under the Proposal, CHOML must hold back part of the US Sale Proceeds from distribution to provide for certain payments and to meet certain types of contingent liabilities and costs. If the Proposal is implemented, it is currently expected that Scheme Unitholders will receive in aggregate an estimated \$3.60 per unit assuming that no further liabilities are identified. The majority of this amount is to be paid on (or around) before the Implementation Date.<sup>8</sup>

## Independent Expert's Report

Grant Samuel & Associates Pty Limited has been appointed as the Independent Expert and has prepared the Independent Expert's Report. The Independent Expert has concluded that the Proposal is fair and reasonable to, and in the best interests of, Scheme Unitholders in the absence of a Superior Proposal.

4. Please refer to the information under the heading "Independent Expert's Report" in this letter for an explanation of the basis for and qualifications to the conclusion that the Proposal is "fair and reasonable".

5. Please refer to Section 4.5 for an explanation of the Pro Forma Adjustments to the Unaudited Balance Sheet as at 31 December 2011 including a reconciliation of Unaudited NTA to Pro Forma Australian Unaudited NTA and Unaudited Total Assets to Pro Forma Australian Unaudited Total Assets.

6. See section 3.2(a) of this Explanatory Memorandum for more detail.

7. In determining the US Sale Proceeds per CQO Unit, it is assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million are estimates of movements in working capital, sale costs, debt transfer, taxation charges and debt termination costs. The actual amount of the estimates may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of receipt of US Sale Proceeds. The calculation of the Australian dollar value per CQO Unit of the US Sale Proceeds is based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00 amongst other things. The actual US Sale Proceeds distributed might vary.

8. For the purposes of calculating this value, \$1.11 has been estimated as the value of the US Sales Distributions and Scheme Contingent Consideration and this has been added to the \$2.49 payment comprising the Scheme Cash Consideration and Implementation Distributions. The actual amount received on account of US Sales Distributions and Scheme Contingent Consideration may vary. Please refer to section 3 for further information including the key assumptions and qualifications in relation to the estimates of these payments.

# Chairman's Letter

The Independent Expert assessed the adjusted Pro Forma Unaudited Australian NTA to be in the range \$2.49-2.56 per CQO Unit (**IE Valuation Range**).<sup>9</sup> The cash payment under the Proposal of \$2.49 per CQO Unit is within this range (albeit at the low end) and therefore the Independent Expert has found that the Proposal is fair. On the basis of this conclusion, the Independent Expert has concluded that the Proposal is also reasonable. As the Proposal is fair and reasonable, the Independent Expert has concluded that the Proposal is in the best interests of Scheme Unitholders, in the absence of a Superior Proposal.

The Independent Expert has noted that the adjusted Pro Forma Unaudited Australian NTA has been calculated based on unaudited financial information as at 31 December 2011. The Independent Expert has noted that movements in the pro forma NTA of the Australian portfolio as a result of the review of the financial statements by CQO's auditors<sup>10</sup> could result in the \$2.49 cash payment falling below the low end of the IE Valuation Range. However the Independent Expert has found that, unless there was a substantial increase in the pro forma NTA of the Australian portfolio, it is likely that even if the Proposal was not fair it would still be reasonable. On this basis, the Independent Expert has found that the Proposal would continue to be in the best interests of Scheme Unitholders.

Further detail is contained in the Independent Expert's Report contained in Attachment F of this Explanatory Memorandum.

## Independent Directors Unanimously Recommend the Proposal

Because of the potential for conflicts of interest, the Board of CHOML delegated responsibility to the Independent Directors Committee to consider, develop and negotiate the Proposal following the first approach made in August 2011. Each member of the Independent Directors Committee is independent of the Charter Hall Group. After careful consideration of the Proposal, each Independent Director has concluded that the Proposal offers the most compelling and certain value proposition currently available to Unitholders and is in the best interests of Unitholders and therefore:

- ◆ **recommends that Unitholders vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal; and**
- ◆ **intends to vote his CQO units in favour of the proposal, in the absence of a Superior Proposal.**

In reaching this conclusion, the Independent Directors Committee examined a range of strategic options which could reasonably be considered to maximise value for CQO unitholders. These were:

- ◆ confidentially approaching a broad range of potential acquirers to assess their willingness to make an alternative proposal;
- ◆ considering a sale of the Australian assets and subsequent wind-up of CQO; and
- ◆ retaining CQO as an ASX listed entity.

Section 2.1(a) of this Explanatory Memorandum contains further details about these options considered by the Independent Directors.

Each Independent Director has also taken into account that:

- ◆ The estimated aggregate value of the Proposal to Scheme Unitholders of \$3.60 represents a 24.3% premium to the closing price of \$2.90 on 26 August 2011 (being the last trading day before announcement by CHOML of the original approach) and a 23.2% premium to the 30 day volume weighted average price to 26 August 2011 of \$2.93. Comparison of the estimated cash payments of \$3.60 under the Proposal to CQO's recent trading prices is complicated by the separate sale of the United States Assets, which is currently underway. The trading price of CQO Units incorporates value attributable to the United States Assets (until such time as the net proceeds of sale are distributed to Unitholders) as well as value attributable to the Australian Assets of CQO. To provide some guidance for Unitholders, this comparison has been carried out by adding the estimated net proceeds from the sale of the United States portfolio, and (taking into account the hedging program for a portion of the net sale proceeds) of \$1.11 to the cash payments of \$2.49 under the Proposal and comparing this combined payment to CQO trading prices. The actual amount received on account of US Sales Distributions and Scheme Contingent Consideration may vary. Please refer to section 3 for further information including the key assumptions and qualifications in relation to the estimates of these payments;
- ◆ the payment of \$2.49 per Scheme Unit represents only a small discount of 3.9% to the Pro Forma Unaudited Australian NTA as at 31 December 2011 of \$2.59 per CQO Unit<sup>11</sup>;
- ◆ CQO Units have traded at a discount to CQO's NTA since early 2008 and, in the absence of the Proposal, are likely to trade at a lower price than where they are currently trading (adjusted by the amount of US Sale Proceeds paid to Unitholders, which will occur even absent implementation of the Proposal);
- ◆ no superior competing proposal has emerged since announcement of the original approach; and
- ◆ the Independent Expert has concluded that the Proposal is fair and reasonable to, and in the best interests of, Scheme Unitholders in the absence of a Superior Proposal.<sup>12</sup>

Reasons that you may vote against the Proposal include that you may disagree with the conclusions of the Independent Directors and Independent Expert, you may believe that a Superior Proposal may emerge, you are not prepared to dispose of your Scheme Units at a discount to Pro Forma Unaudited Australian NTA or may not consider it to be the right time to exit your investment in CQO.

9. The adjusted Pro Forma Unaudited Australian NTA represents the estimated realisable value of CQO's Australian portfolio, assuming 100% was available to be acquired.

10. CQO expects to release to ASX its half-year financial statements for the period ending 31 December 2011 on 21 February 2012. A copy of these will be available on CQO's website [www.charterhall.com/cqo](http://www.charterhall.com/cqo) on 21 February 2012.

11. Please refer to section 4.5 for an explanation of the Pro Forma Adjustments to the Unaudited Balance Sheet as at 31 December 2011 including a reconciliation of Unaudited NTA to Pro Forma Australian Unaudited NTA.

12. Please refer to the information under the heading "Independent Expert's Report" in this letter for an explanation of the basis for and qualifications to the conclusion that the Proposal is "fair and reasonable".

## Next Steps

The Meeting for Unitholders to consider the Proposal will be held at 10:00am on 15 March 2012 at Ballroom 1, The Westin Sydney, No. 1 Martin Place, Sydney 2000.

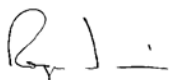
For the Proposal to be implemented, both of the Scheme Resolutions must be passed at the Meeting by the requisite majorities. One of those resolutions requires that CHOML receive approval by at least 75% of the votes cast by Unitholders entitled to vote on the special resolution at the Meeting. Charter Hall Group entities, the Bidders and their Associates will not vote on the Scheme Resolutions.

In addition, Unitholders will be asked to approve a special resolution amending the CQO Constitution to enable CHOML to receive base management fees for the period up until the Implementation Date. CHOML must receive approval by at least 75% of the votes cast by Unitholders entitled to vote on this resolution at the Meeting. The Proposal is not conditional upon this resolution being passed. The Independent Directors recommend you vote in favour of this resolution for the reasons given in this Explanatory Memorandum.

If you have any question in relation to the Proposal, please call the official CQO Unitholder information line on 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia) Monday to Friday between 8.30 am and 7.30 pm, Sydney time or visit **[www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo)**.

Your vote is important and I recommend you vote in favour of the Proposal at the Meeting on 15 March 2012.

Yours sincerely



**Roger Davis**

Independent Chairman

Charter Hall Office Management Limited



## What are the key dates?

Date	Event
21 February 2012	CQO financial statements for the half year ended 31 December 2011 released to ASX and available on CQO's website at <a href="http://www.charterhall.com.au/cqo">www.charterhall.com.au/cqo</a>
10:00am on Tuesday, 13 March 2012	Last date and time by which proxy forms for the Meeting must be received by the Registry
7:00pm on Tuesday, 13 March 2012	Date and time for determining eligibility to vote at the Meeting
10:00am on Thursday, 15 March 2012	<b>Meeting Date</b> – 10:00am on 15 March 2012 at Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney 2000
Friday, 16 March 2012	<b>Second Judicial Advice Date</b> – date on which the Second Judicial Advice will be sought from the Court provided that the Scheme Resolutions have been approved at the Meeting. Unitholders have a right to appear at Court on this date, as set out in section 1.4(c)
<b>IF UNITHOLDERS APPROVE THE PROPOSAL AT THE MEETING AND IF CHOML RECEIVES THE ADVICE IT SEEKS ON THE SECOND JUDICIAL ADVICE DATE</b>	
Friday, 16 March 2012	<b>Effective Date</b> - this is the date on which the amendments to the CQO Constitution come into effect in order to give effect to the Proposal <b>CQO Units will be suspended from trading on ASX at the close of trading on ASX on the Effective Date. If the Proposal proceeds, this will be the last day that CQO Units will trade on ASX</b>
7:00pm on Friday, 23 March 2012	<b>Record Date</b> – if you hold CQO Units on this date and at this time, and are not an Excluded Unitholder, you will be entitled to receive the Scheme Cash Consideration. All Unitholders who hold CQO Units on this date and at this time will be entitled to receive the Implementation Distributions
30 March 2012	<b>Implementation Date</b> – date on which (or as soon as reasonably practicable after which) the Scheme Cash Consideration will be despatched to all Scheme Unitholders and the Implementation Distributions will be despatched to all Eligible Unitholders (including the Scheme Unitholders)
30 September 2012	Earliest date on which any part of the Scheme Contingent Consideration will be despatched to all Eligible Unitholders in accordance with their respective entitlements <sup>13</sup>

All dates following the date of the Meetings are indicative only and are subject to change. Unless otherwise specified, all dates refer to Sydney time. In particular, if there is a delay in completion of the US Sales Process, the Meeting may be postponed to a later date (see section 1.4(b) of this Explanatory Memorandum) and if so subsequent dates in the timetable above will also be deferred. Any changes to the above timetable made prior to the Implementation Date will be announced to ASX and notified on CQO's website at [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo).

13. As set out in section 3.2(c), the timing of any payments of Scheme Contingent Consideration is subject to a number of variables, including whether any Relevant Claims have arisen. Accordingly, there can be no assurance that any or all the Scheme Contingent Consideration will in fact be paid on 30 September 2012.

# What do I need to do?

## Step 1 - Carefully read this Explanatory Memorandum

This Explanatory Memorandum is an important document and you should read it carefully and in its entirety before making a decision on how to vote at the Meeting.

If you have any questions about the Proposal, how to vote or regarding the number of CQO Units you hold, please call the Unitholder information line on 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time). Information and documents relevant to the Proposal can be found online at **[www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo)**.

If you have any doubts as to the actions you should take or you have further questions, please contact your legal, investment or other professional advisor.

## Step 2 - Vote on the Resolutions

As a Unitholder, you are entitled to vote on whether the Proposal should proceed at the Meeting, unless a voting exclusion applies to you. As a Unitholder, you have a say in whether the Bidders will acquire all of the Scheme Units. This is your opportunity to play a role in deciding the future of CQO.

Please refer to the following page of this Explanatory Memorandum and the Notice of Meeting for details on how to vote at the Meeting and voting by proxy.

# What are the Meeting details and how do I vote?

## Notice of Meeting

A copy of the Notice of Meeting is set out in Attachment A to this Explanatory Memorandum.

## Location and details of Meeting

The details of the Meeting are as follows:

**Location:** Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney NSW 2000

**Date:** Thursday, 15 March 2012

**Time:** 10:00 am



## What is the business of the Meeting?

Unitholders will be asked to consider, and if thought fit, approve the Scheme Resolutions which must be passed as a condition to implementation of the Proposal. Unitholders will also be asked to consider, and if thought fit, approve the RE Fees Resolution (note that the Proposal is not conditional on the RE Fees Resolution being passed). Full details of the Resolutions are set out in section 1.5 of this Explanatory Memorandum and the Notice of Meeting.

## What is the quorum for the Meeting?

The quorum for the Meeting is 2 Unitholders present in person or by proxy together holding at least 10% of all CQO Units.

## Who is entitled to vote at the Meeting?

All Unitholders on the Register at 7.00pm on 13 March 2012 are entitled to vote on the Scheme Resolutions and the RE Fees Resolution unless a voting exclusion applies to them.

## Voting exclusions

Section 1.5(d) of this Explanatory Memorandum explains which Unitholders are excluded from voting on the Resolutions.

## Voting is to be undertaken by poll

Voting on all of the Resolutions will be by way of poll, rather than on a show of hands.

## What are the voting majorities required to pass the Resolutions?

The requisite majorities required in order to pass the Resolutions are described in sections 1.5(a) and 1.5(b) of this Explanatory Memorandum.



### What are the Chairman's voting intentions?

If you appoint the Chairman of the Meeting as your proxy and you do not specifically direct how your proxy is to vote on a Resolution, the Chairman of the Meeting will exercise your votes in favour of the Resolution.

### Is voting compulsory?

No, although **your vote is important** and the Independent Directors encourage you to exercise your right to vote.

In order for the Proposal to proceed, both Scheme Resolutions must be approved by the requisite majorities of Unitholders present and voting (and who are eligible to vote on the Scheme Resolutions) – see section 1.5(a) of this Explanatory Memorandum. If either of the Scheme Resolutions is not passed by the requisite majority, the Proposal will not proceed.

**For this reason each Independent Director unanimously recommends that you vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal.**

It also important that you exercise your right to vote on the RE Fees Resolution.

If you are unable to attend the Meeting, the Independent Directors urge you to complete and return, in the enclosed reply paid envelope, the personalised proxy forms that accompany this Explanatory Memorandum or lodge your proxy forms online at the Registry's website ([www.investorcentre.linkmarketservices.com.au](http://www.investorcentre.linkmarketservices.com.au)) in accordance with the instructions given there.

### Voting in person, by attorney or corporate representative

Details about how to vote in person, by attorney or corporate representative are set out in the Notice of Meeting.

If you wish to vote in person, you must attend the Meeting.

If you cannot attend the Meeting, you may vote by proxy, attorney or if you are a body corporate, by appointing a corporate representative.

Attorneys who plan to attend the Meeting should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Meeting.

A body corporate which is a Unitholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 253B of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

### Voting by proxy

A Unitholder has the right to appoint a proxy to attend and vote at the Meeting on their behalf. Details about appointing a proxy are included in the Notice of Meeting and the proxy forms accompanying this Explanatory Memorandum.

A proxy does not need to be a member of CQO, and you may appoint the Chairman of the Meeting as your proxy. A Unitholder may appoint up to two proxies, and if so, the Unitholder may specify the proportion or number of votes each proxy is appointed to exercise. If you appoint two proxies and do not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes. The Proxy Form, which accompanies this Notice of Meeting, includes instructions on how to vote and appoint a proxy.

**TO BE VALID, THE REGISTRY OR CHOML MUST RECEIVE YOUR PROXY FORM NO LATER THAN 10:00am SYDNEY TIME ON 13 MARCH 2012, that is, 48 hours before the Meeting. Proxy Forms may be lodged using the reply paid envelope or:**

- ◆ online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) in accordance with the Proxy Form;
- ◆ by mailing it to: Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235;
- ◆ by faxing it to: +61 2 9287 0309;
- ◆ by delivering it to: Link Market Services Limited, Level 12, 680 George Street, Sydney, NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138; or
- ◆ by delivering it to CHOML's registered office: Level 11, 333-339 George Street, Sydney, NSW 2000.

If you appoint the Chairman of the Meeting as your proxy and you do not specifically direct how your proxy is to vote on a Resolution, the Chairman of the Meeting will exercise your votes in favour of the Resolution.

If your attorney executes the Proxy Form on your behalf, the power of attorney pursuant to which they act must have been previously provided to CHOML or the Registry or a certified copy must be lodged along with your Proxy Form.

# 1. Proposal

## 1.1 Why have I received this Explanatory Memorandum?

You have received this Explanatory Memorandum because you are a Unitholder. Unitholders are asked to vote on the Proposal which, if implemented, will result in the Bidders acquiring all the Scheme Units.

This Explanatory Memorandum is intended to help you to decide how to vote on the Scheme Resolutions which need to be passed at the Meeting to allow the Proposal to proceed. Additionally, it contains information about the RE Fees Resolution on which Unitholders are also asked to vote (see section 1.5(b) of this Explanatory Memorandum for more information about this Resolution).

The Independent Directors recommend that you read this Explanatory Memorandum and, if necessary, consult your investment, tax, legal or other professional adviser before voting on the Resolutions.

## 1.2 What is the Proposal?

### (a) What is the Proposal and what will I receive if the Proposal becomes Effective?

The Proposal is a trust scheme which is an arrangement which, if implemented, will result in all the Scheme Units being transferred to the Bidders (or their respective Nominees) and will also result in certain payments being made to Scheme Unitholders and other Unitholders as detailed in this Explanatory Memorandum.

If the Proposal becomes Effective, Scheme Unitholders will receive \$2.49 in cash on or as soon as reasonably practicable after the Implementation Date for each Scheme Unit that they hold at the Record Date.

That payment of \$2.49 per Scheme Unit comprises:

- ◆ an estimated \$1.84 per Scheme Unit of Scheme Cash Consideration, which is to be paid by the Bidders; and
- ◆ an estimated \$0.65 per Scheme Unit of Implementation Distributions to be paid by CHOML.

Although the respective values of the Scheme Cash Consideration and Implementation Distributions cannot be precisely calculated now, they will always be valued at \$2.49 in total (see section 3.2(a) of this Explanatory Memorandum for more details).

Excluded Unitholders will also receive the Implementation Distributions if the Proposal is implemented.

In addition, it is intended that Unitholders will receive the economic benefit of the US Sale Proceeds, less the payment of any US tax and other liabilities and costs associated with, amongst other things, the US Assets, the US Sale Contract and CQO's offshore entities and costs associated with administration of the holdback arrangements described in section 3.2 of this Explanatory Memorandum.

As more fully explained in section 3.2(b) of this Explanatory Memorandum, CHOML will not distribute to Unitholders part of the US Sale Proceeds to allow it to provide for any such contingent liabilities and costs.

In summary, with respect to the US Sale Proceeds:<sup>14</sup>

- ◆ on or prior to the Implementation Date, CHOML expects to announce and pay a special distribution of US Sales Proceeds, estimated to be at least \$0.96 per CQO Unit (or multiple special distributions estimated to aggregate to at least \$0.96 per CQO Unit);<sup>15</sup>
- ◆ on or as soon as reasonably practicable after the Implementation Date, USD34 million of the US Sale Proceeds will be used to partially fund the Implementation Distributions; and
- ◆ amounts equal to the balance of the US Sale Proceeds along with any remaining amounts in the Escrow Account (less additional potential and contingent liabilities associated with the US Assets, the US Sale Contract and CQO's offshore entities and costs of the holdback arrangements) of up to an estimated \$0.15 per CQO Unit will be paid to Eligible Unitholders by the Escrow Agent and funded by the Bidders (see section 3.2(c) of this Explanatory Memorandum for a description of this Scheme Contingent Consideration).<sup>16</sup>

The first payment of Scheme Contingent Consideration is expected to occur approximately 6 months after the Implementation Date and is expected to comprise the bulk of the funds in the Escrow Account unless any of the contingent liabilities and costs of the kind referred to in section 3.2 of this Explanatory Memorandum arise. The Escrow Agent must pay the remainder of the amounts in the Escrow Account pro rata to Eligible Unitholders as any such liabilities are discharged or resolved and as any further amounts in respect of US Sale Proceeds are received from the Bidders.

You must read section 3 of this Explanatory Memorandum for a comprehensive description of the payments that will be made to Unitholders in the event that the Proposal becomes Effective.

The payment of US Sales Distributions is not dependant on the Proposal becoming Effective.

14. In determining the US Sale Proceeds, it is assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million of estimated US Sale Proceeds are estimates of movements in working capital, sale costs, debt transfer, taxation charges and debt termination costs. The actual amount of the estimates may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of receipt of US Sale Proceeds. The calculation of the Australian dollar value per CQO Unit of the US Sale Proceeds is based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00 amongst other things. The actual US Sale Proceeds distributed might vary.

15. For more information about this estimate, please see section 3.2(b) and the assumptions and qualifications therein.

16. For more information about this estimate, please see section 3.2(c) and the assumptions and qualifications therein. One key assumption is that the calculation of the Australian dollar value is based on an exchange rate of USD1.08:AUD1.00.

**(b) Who is entitled to participate in the Proposal?**

All Unitholders as at the Record Date, other than the Excluded Unitholders, are entitled to participate in the Proposal.

The Excluded Unitholders are any Bidder and any of their Associates who hold CQO Units at the Record Date (other than PSP in respect of its holding of 5,218,676 CQO Units and Charter Hall Property Securities Fund in respect of its holding of 1,295,000 CQO Units (held through JP Morgan Nominees Australia Limited as custodian)). While PSP and Charter Hall Property Securities Fund are entitled to transfer their Scheme Units under the Proposal, they will not be able to vote those CQO Units on either Scheme Resolution. See section 1.5(d) for more details.

While the Excluded Unitholders will not transfer any CQO Units under the Proposal, Excluded Unitholders will, as CQO Unitholders, share in the economic benefit of the US Sale Proceeds, less the payment of US tax and other liabilities, in the manner described in this Explanatory Memorandum. Excluded Unitholders will receive the Implementation Distributions that are paid to Scheme Unitholders and will also receive Scheme Contingent Consideration (as well as the US Sales Distributions paid on or before implementation by CHOML).

**(c) Recommendation of the Independent Expert in relation to the Proposal**

The Independent Directors Committee engaged the Independent Expert to provide an independent expert's report on the Proposal. The full Independent Expert's Report is contained in Attachment F.

The Independent Expert's Report provides an assessment of the Proposal. The Independent Expert assessed the adjusted Pro Forma Unaudited Australian NTA to be in the range \$2.49-2.56 per CQO Unit (**IE Valuation Range**).<sup>17</sup> The cash payment under the Proposal of \$2.49 per CQO Unit is within this range (albeit at the low end) and therefore the Independent Expert has found that the Proposal is fair. On the basis of this conclusion, the Independent Expert has concluded that the Proposal is also reasonable. As the Proposal is fair and reasonable, the Independent Expert has concluded that the Proposal is in the best interests of Scheme Unitholders, in the absence of a Superior Proposal.

The Independent Expert has noted that the adjusted Pro Forma Unaudited Australian NTA has been calculated based on unaudited financial information as at 31 December 2011. The Independent Expert has noted that movements in the pro forma NTA of the Australian portfolio as a result of the review of the financial statements by CQO's auditors<sup>18</sup> could result in the \$2.49 cash payment falling below the low end of the IE Valuation Range. However the Independent Expert has found that, unless there was a substantial increase in the pro forma NTA of the Australian portfolio, it is likely that even if the Proposal was not fair it would still be reasonable. On this basis, the Independent Expert has found that the Proposal would continue to be in the best interests of Scheme Unitholders.

The Independent Expert has concluded that the Proposal is fair and reasonable to, and in the best interests of, Scheme Unitholders in the absence of a Superior Proposal.

**(d) Recommendation of the Independent Directors in relation to the Proposal**

Each Independent Director recommends that Scheme Unitholders vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal.

In the absence of a Superior Proposal, each Independent Director intends to cause any CQO Units in which they have a relevant interest to be voted in favour of the Scheme Resolutions.

Section 2.1(a) of this Explanatory Memorandum sets out the reasons for the Independent Directors' recommendation.

**(e) Why haven't the other directors provided a recommendation about the Proposal?**

The two remaining directors of CHOML, David Harrison and David Southon, do not provide any recommendation about the Proposal. Given their role as senior executives of Charter Hall Group, they do not consider it appropriate for them to provide a recommendation about the Proposal given that a Charter Hall Group entity is one of the Bidders and will continue to provide management and other services to CQO following implementation). As described in more detail in section 1.3(e) below, the Independent Directors Committee (rather than the full CHOML Board) took responsibility for the development and negotiation of the terms of the Proposal.

**(f) Who are the Bidders and how will the Bidders' payment obligations be funded?**

The Bidders are Reco, PSP and CHPT.

Full details of the Bidders are set out in section 5 of this Explanatory Memorandum. That section also contains disclosure about how the Bidders will fund their payment obligations in relation to the Proposal.

17. The adjusted Pro Forma Unaudited Australian NTA represents the estimated realisable value of CQO's Australian portfolio, assuming 100% was available to be acquired.

18. CQO expects to release to ASX its half-year financial statements for the period ending 31 December 2011 on 21 February 2012. A copy of these will also be available on CQO's website [www.charterhall.com/cqo](http://www.charterhall.com/cqo) on 21 February 2012.



# 1. Proposal

## **(g) What is the Escrow Account and who is the Escrow Agent?**

Upon implementation of the Proposal occurring, the Escrow Agent will establish, maintain and operate the Escrow Account, into which the Bidders will deposit the amounts described in section 3.2(c). The Escrow Account is to be used to pay any Relevant Claims (including the costs arising from such claims). To the extent that over-provision is made for any Relevant Claims, those surplus funds must also be paid out of the Escrow Account in the form of Scheme Contingent Consideration as described in section 3.2(c) of this Explanatory Memorandum. More information about the composition of the Escrow Account and the role of the Escrow Agent is contained in sections 3.2 and 3.4 of this Explanatory Memorandum. Scheme Unitholders should note that the Escrow Agent:

- ◆ has no duty or obligation to enforce any obligations of the Bidders; and
- ◆ has limited liability in respect of amounts due by it to Scheme Unitholders, as set out in section 3.4(e) of this Explanatory Memorandum.

## **(h) What is the CQO Committee?**

The CQO Committee is a committee appointed by the CHOML Board comprising of members nominated by the Independent Directors Committee and the Bidders. As more fully set out in section 3.5(c), it has a number of responsibilities, including calculating the Scheme Contingent Consideration amounts to be paid to Eligible Unitholders, and providing directions to the Escrow Agent to make payments out of the Escrow Account.

Members of the CQO Committee have limited liability to Scheme Unitholders, as set out in section 3.6(e) of this Explanatory Memorandum.

## **1.3 What is the background to the Proposal?**

### **(a) Strategic review**

In December 2008, CHOML announced to ASX a broad strategy of reweighting the CQO portfolio in favour of properties located in Australia. As part of that strategy, a formal process was undertaken over the course of late 2010 and 2011 to explore options in relation to CQO's United States portfolio.

### **(b) Formation of an Independent Directors Committee**

In June 2011, the Board of CHOML established a committee comprising of each of the Independent Directors, being Roger Davis, James Broadbent and Andrew Love. The Independent Directors Committee was given sole decision-making responsibility in relation to the disposal of CQO's United States portfolio and consideration of any alternate proposals put forward by other parties.

### **(c) US Sale Process**

Consistent with this strategy, CHOML announced to ASX on 3 August 2011 that it had entered into a contract for the sale of 100% of CQO's interests in the US Assets on the terms of the US Sale Contract. Further information about the US Sale Process is contained in section 4.3 of this Explanatory Memorandum.

### **(d) Receipt of approach from a consortium**

On 26 August 2011, Macquarie, on behalf of a consortium including itself and a number of global institutional investors, submitted an indicative, highly conditional, non-binding and confidential proposal to the Independent Directors to acquire all of the CQO Units, other than those held by Charter Hall Group, for an indicative price of \$2.39 per CQO Unit in cash with respect to CQO's Australian portfolio, on the basis that CQO would at implementation have completed the disposal of the US portfolio and distributed the net proceeds to CQO Unitholders resulting from the disposal. It was a condition of the proposal that Charter Hall Group would continue to act as responsible entity of CQO. CHOML announced this approach to ASX on 29 August 2011.

As a result of the potential conflicts arising from the Charter Hall Group's possible involvement in the indicative proposal, the CHOML Board formally appointed the Independent Directors to act as a sub-committee of the CHOML Board (**Independent Directors Committee**) in late August 2011 to progress all aspects of the proposal.

### **(e) Development of the Proposal and role of the Independent Directors Committee**

Following receipt of the indicative proposal, the Independent Directors Committee, with the assistance of advisers, held further discussions with the consortium with a view to clarifying and improving the indicative proposal. The Independent Directors Committee also agreed to provide limited due diligence access to the original consortium on a non-exclusive basis.

As announced to ASX by CHOML on 5 October 2011, the consortium provided the Independent Directors Committee with a slightly improved indicative proposal of \$2.43 per CQO Unit, an increase of \$0.04 per CQO Unit, under which Unitholders would have remained entitled to the proceeds from the sale of the US Assets and the distribution for the half year ended 31 December 2011. The Independent Directors Committee advised ASX that this indicative proposal remained inadequate, but offered further limited due diligence to the consortium on a non-exclusive basis in order to allow it the opportunity to improve its proposal.

After further negotiations, CHOML announced to ASX on 5 December 2011 that the Independent Directors Committee unanimously recommended a conditional proposal from Reco and PSP, two of the three current Bidders, pursuant to which Unitholders (other than the Charter Hall Group) would receive \$2.49 per CQO Unit (by a combination of cash from the consortium and a special distribution from CHOML) for the transfer of those CQO Units to the consortium. As with the previous proposal, Unitholders would share the economic benefit of the US Sale Proceeds (net of certain contingent liabilities and other costs) and the distribution for the half-year ended 31 December 2011. This proposal was conditional upon the entry into binding documentation, amongst other things.

CHOML and the Bidders (together with CHFML) entered into a Scheme Implementation Agreement on 31 December 2011 pursuant to which it was agreed, among other things, for CHOML to put forward the Proposal for Unitholder approval. CHOML announced to ASX the entry into that agreement on 3 January 2012.

In the period culminating in announcement of the Proposal, the Independent Directors Committee explored a range of alternative strategic options to maximise Unitholder value. These options are described more fully in section 2.1(a) of this Explanatory Memorandum. Following that process, each Independent Director has determined to recommend the Proposal in the absence of a Superior Proposal.

The Independent Directors Committee took responsibility for the negotiation of the terms of the Proposal (with the assistance of their advisers) and in accordance with the committee protocols, made the decision for CHOML to enter into the Scheme Implementation Agreement and to put the Proposal to Unitholders for approval.

## 1.4 What are the steps involved in implementing the Proposal?

### (a) Preliminary steps

#### (i) Bidder Deed Poll and Escrow Agent Deed Poll

Following entry into the Scheme Implementation Agreement, each Bidder has executed the Bidder Deed Poll pursuant to which each Bidder covenants in favour of each Scheme Unitholder, subject to the Proposal becoming Effective, to perform all obligations attributed to it under the Scheme Implementation Agreement, including the obligation to pay its respective share of the Scheme Cash Consideration and the Scheme Contingent Consideration. A copy of the Bidder Deed Poll is contained in Attachment D to this Explanatory Memorandum.

The Escrow Agent (who will be responsible for paying the Scheme Contingent Consideration out of the Escrow Account funded by the Bidders to Eligible Unitholders) has also entered into a deed poll in favour of Scheme Unitholders that sets out its obligations in relation to any Scheme Contingent Consideration that is payable under the Proposal. Further information about the Escrow Agent Deed Poll, and the role of the Escrow Agent, including the limitations on its liabilities, is contained in section 3.4 of this Explanatory Memorandum. A copy of the Escrow Agent Deed Poll is contained in Attachment E to this Explanatory Memorandum.

#### (ii) First judicial advice

On 10 February 2012, the Court heard CHOML's application for judicial advice as to whether CHOML would be justified in taking steps to dispatch the Explanatory Memorandum to Unitholders in order to convene the Meeting to consider the Proposal and, if approved by Unitholders, to implement the Proposal.

On that date, the Court confirmed that CHOML is justified in:

- ◆ convening a meeting for the purposes of those Unitholders who are entitled to vote considering, and if thought fit, agreeing (with or without modification) to the Proposal; and
- ◆ proceeding on the basis that the making of amendments to the CQO Constitution as set out in the Supplemental Deed, following approval by Unitholders entitled to vote on the Scheme Resolutions, and confirmed that CHOML is within its powers of alteration conferred by the CQO Constitution and section 601GC of the Corporations Act.

A copy of the proposed amendments to the CQO Constitution to effect the Proposal is contained in the Supplemental Deed, which is set out in Attachment B to this Explanatory Memorandum.

### (b) Meeting

In order for the Proposal to become Effective, Unitholders must approve the Scheme Resolutions at the Meeting.

The Meeting is a general meeting of CQO Unitholders and will be held at Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney NSW 2000 on 15 March 2012, commencing at 10:00am.

The Resolutions to be put to Unitholders at the Meeting are set out in the Notice of Meeting, which is contained in Attachment A to this Explanatory Memorandum. A summary of the Resolutions appears in section 1.5(a) and 1.5(b) of this Explanatory Memorandum, together with details of who is entitled to vote at the Meeting, the voting exclusions that apply and the voting majorities required in order for the Resolutions to be passed.

If, on the 10th Business Day before the Second Judicial Advice Date (which date is currently expected to be 2 March 2012), CHOML has reason to believe that the sale of the US Assets will not have completed by the Second Judicial Advice Date, the Meeting will, unless the parties to the Scheme Implementation Agreement agree otherwise, be postponed to the earliest possible date after the date on which it is expected that the US Asset sale will have completed. Consequently, the Second Judicial Advice Date would also be postponed. If the Meeting is postponed in this way, CHOML will make an announcement on ASX. The new Second Judicial Advice Date cannot be any later than the Business Day before the End Date (which date is currently expected to be 17 May 2012, unless CHOML, the Bidders and CHFML agree to extend the End Date beyond 17 May 2012).

# 1. Proposal

If implementation of the Proposal does not occur on or before 1 April 2012, the Bidders will incur additional debt funding costs. In this event, the amounts of US Sale Proceeds capable of distribution to Unitholders as US Sale Distributions will be reduced by up to \$3 million to provide for these additional costs of the Bidders. If Unitholders do not approve the Proposal, implementation of the Proposal will never occur and so CHOML will not withhold any amounts of US Sales Proceeds from payment to Unitholders as US Sales Distributions on account of additional debt funding costs of the Bidders. See section 3.2(b) of this Explanatory Memorandum for more information.

Further instructions on how to attend and vote at the Meeting in person or to appoint a proxy, attorney or corporate representative to attend and vote on your behalf are set out on pages 12-13 of this Explanatory Memorandum, in the section entitled *What are the Meeting details and how do I vote?*

## **(c) Judicial Advice and the Second Court hearing**

If the Scheme Resolutions are approved by the requisite majorities and all conditions precedent to the Proposal have been satisfied or remain capable of being satisfied, or (where applicable) waived, CHOML will apply to the Court for the Second Judicial Advice. This is a confirmation from the Court that CHOML is justified in acting upon the Scheme Resolutions and in doing all things and taking all necessary steps to put the Proposal into effect.

Pursuant to an order of the Court made on 10 February 2010, any CQO Unitholder who claims that his or her rights as a member of CQO will be prejudiced by the amendments to the CQO Constitution and by CHOML effecting the Proposal for the acquisition of all Scheme Units may appear at Court on the Second Judicial Advice Date, and apply for such orders or such directions as the circumstances may require. CHOML should be notified in advance of an intention to object. The Second Judicial Advice Date is currently scheduled to be Friday, 16 March 2012, although this date is subject to change.

## **(d) Effective Date**

If CHOML receives the Second Judicial Advice, CHOML, the Bidders and the Escrow Agent will take, or procure the taking, of all steps required for the Proposal to be implemented, including the execution and lodgement of the Supplemental Deed with ASIC under section 601GC(2) of the Corporations Act. The amendments to the CQO Constitution set out in the Supplemental Deed will take effect on lodgement with ASIC at which time the Proposal will become Effective. The Effective Date is currently expected to be 16 March 2012, although this is subject to change.

Under the terms of the Supplemental Deed, CHOML will be obliged to apply to ASX for suspension of trading of CQO Units from the close of business on the Effective Date. Trading in CQO Units will be suspended from close of trading on the Effective Date after which time it will not be possible to transfer CQO Units.

## **(e) Record Date**

The Record Date, which is the date for determining entitlements to receive Scheme Cash Consideration and the Implementation Distributions, will be 7:00pm on the day that is 5 Business Days after the Effective Date. The Record Date is currently expected to be 7:00pm on 23 March 2012.

## **(f) Dealings on or prior to the Record Date**

Dealings in CQO Units will be recognised by CHOML if the transferee is registered in the Register as the holder of the relevant CQO Units by the Record Date (in the case of dealings effected through CHESS) and, in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Registry by the Business Day prior to the Record Date, in which case, CHOML must register such transfers or transmission applications before the Record Date.

## **(g) Dealings after the Record Date**

Under the terms of the Supplemental Deed, no Scheme Unitholder (or any person purporting to claim through them) will be able to deal with Scheme Units in any way after the Record Date and any attempt to do so will have no effect.

However, Unitholders may continue to advise the Registry of any changes to their personal details such as their address or bank account details.

## **(h) Implementation Date and following**

Implementation of the Proposal will occur on the 5th Business Day after the Record Date. The Implementation Date is currently expected to be 30 March 2012.

The steps that will occur upon implementation of the Proposal are set out in section 3 of this Explanatory Memorandum.

## **(i) Delisting from ASX**

Under the terms of the Supplemental Deed, CHOML will apply to ASX for termination of the official quotation of CQO Units and the removal of CQO from the official list of ASX with effect from the Business Day immediately following the Implementation Date, or from such later date as may be determined by the Bidders.



## 1.5 Resolutions to be put to the Meeting

### (a) Scheme Resolutions

Implementation of the Proposal requires Unitholders to consider and, if thought fit, approve, the following Scheme resolutions:

#### (i) Constitutional amendment

Unitholders must approve amendments to the CQO Constitution to facilitate the Bidders' acquisition of CQO by the compulsory transfer of Scheme Units to the Bidders. This resolution approves the amendments as set out in the Supplemental Deed, and also authorises CHOML to execute and lodge the Supplemental Deed with ASIC.

These amendments must be approved by a special resolution which requires approval by at least 75% of the votes cast by Unitholders entitled to vote on the resolution.

#### (ii) Approval of acquisition of Scheme Units

In addition to the resolution to approve amendments to the CQO Constitution, Unitholders must approve the acquisition of the Scheme Units by the Bidders or their Nominees for the purposes of item 7 section 611 of the Corporations Act by an ordinary resolution.

This Resolution is to ensure that the Proposal does not cause the Bidders or CHOML to breach the takeovers provisions of the Corporations Act.

To be passed, the ordinary resolution requires approval by more than 50% of the votes cast on the resolution at the Meeting by Unitholders entitled to vote on the resolution.

### (b) RE Fees Resolution

Unitholders are also being asked to consider and, if thought fit, to pass the RE Fees Resolution to facilitate the payment to CHOML, if the Proposal becomes Effective, of CHOML's base fees for the period from the end of the most recent quarter in respect of which it has been paid (currently from 1 January 2012) and ending on the Implementation Date, calculated on a pro rata basis in the manner described below. For example, if, as expected, the Implementation Date is 30 March 2012, the resolution will enable CHOML to be paid its base fee for the period from 1 January 2012 up to and including 30 March 2012 on the Implementation Date. The RE Fees Resolution approves the amendments to the CQO Constitution set out in the Supplemental Deed (RE Fees) to facilitate this payment, and also authorises CHOML to execute and lodge the Supplemental Deed (RE Fees) with ASIC. A copy of the Supplemental Deed (RE Fees) is attached to this Explanatory Memorandum as Attachment C.

Because the RE Fees Resolution involves amending the CQO Constitution, it must be approved by a special resolution which requires approval by at least 75% of the votes cast by Unitholders entitled to vote on the resolution.

#### (i) What is the purpose of the RE Fees Resolution?

The current drafting of the CQO Constitution only entitles CHOML to be paid its base fees at the end of each quarter. It also contemplates that fees are calculated on a half yearly basis as a percentage of the value of CQO's assets at the end of the relevant half year.

Therefore:

- ◆ if the Implementation Date falls on a day that is not the end of a quarter; and
- ◆ the Bidders amend the CQO Constitution on the Implementation Date (as they currently intend to: see section 5.6),

CHOML would not be paid for the period between the day after the end of the most recent quarter and the Implementation Date, despite having managed CQO for that time. Furthermore, it will not be possible to determine the "pro rata entitlement" to fees, since at the Implementation Date it would not be possible to know CQO's assets as at the end of the half year (which would be a future date).

The purpose of the RE Fees Resolution is to entitle CHOML to be paid, effectively on a pro rata basis, for the services it has performed during the period until the Implementation Date. The proposed amendment would allow base fees for the relevant period to be calculated on a daily basis, by reference to the assets held by CQO as at the end of each day in that period. A daily calculation basis provides the best reflection of time that the manager was involved with management of the US Assets.

#### (ii) Description of calculation of management fee

If the RE Fees Resolution is passed, and the Proposal becomes Effective, CHOML's entitlement to fees for managing CQO in the period from 1 January 2012 to the Implementation Date (**Relevant Period**) will be calculated by first determining the gross base fee on a pro rata daily basis for the Relevant Period, by reference to the assets of CQO as at 31 December 2011 (**Gross Base Fee**).

Gross Base Fee will be calculated as:

- (A) 0.45% per annum of the value of the total assets of CQO as at 31 December 2011 up to \$1 billion multiplied by  $\frac{n}{366}$ ; plus
- (B) 0.4% per annum of the value of the total assets of CQO as at 31 December 2011 over \$1 billion multiplied by  $\frac{n}{366}$ ,  
where  $n$  is the number of days in the Relevant Period.

# 1. Proposal

As US Assets may be sold during the Relevant Period, it will be necessary to adjust the value of the Gross Base Fee to ensure that CHOML will not receive a management fee for assets that it is not managing in the part of the Relevant Period falling after the sale. In order to do this, it is necessary to deduct from the Gross Base Fee the amount attributable to managing the US Asset for the period in which it is not owned.

The deduction for each US Asset sold is calculated as:

(C)  $0.4\%$  per annum of the value as at 31 December 2011 of the US Asset sold multiplied by  $\frac{a}{366}$ ,

where “a” is the number of days in the Relevant Period that the US Asset is **not** owned.

In order to determine the total deduction, it will be necessary to perform the above calculation for each US Asset sold during the Relevant Period and aggregate them (**Total Deduction**).

It follows that the management fee that CHOML will receive for the Relevant Period will be determined by subtracting the Total Deduction from the Gross Base Fee.

(iii) Recommendation of Independent Directors and reasons to vote in favour of the RE Fees Resolution

Each Independent Director recommends Eligible Unitholders vote in favour of the RE Fees Resolution and will cause any CQO Units in which they have a relevant interest to be voted in favour of the RE Fees Resolution.

The Independent Directors give this recommendation because the proposed amendment enables CHOML to receive management fees on a pro rata basis in respect of the period up until the Implementation Date. CHOML will have performed services as fund manager for the period from 1 January 2012 to the Implementation Date and should be entitled to a fund management fee for that period.

Passage of the RE Fees Resolution will not result in any material decrease in the amounts received by Eligible Unitholders under the Proposal.

(iv) Reasons against voting in favour of the RE Fees Resolution

You may decide to vote against the RE Fees Resolution because you do not believe that CHOML should be entitled to fees unless already provided for in the CQO Constitution (even though the passage of the RE Fees Resolution would not result in CHOML receiving any more fees than they otherwise would have received had the Implementation Date fallen at the end of a quarter).

(v) What happens to the Proposal if the RE Fees Resolution is not passed?

The implementation of the Proposal is not conditional upon the RE Fees Resolution being passed.

## (c) Interconditionality

The Scheme Resolutions are interconditional and the Proposal will only proceed if both the Scheme Resolutions are passed at the Meeting by the requisite majorities. Section 2.3 of this Explanatory Memorandum sets out what will happen if the Proposal is not implemented.

The RE Fees Resolution is conditional on both Scheme Resolutions being passed at the Meeting by the requisite majorities. It is also conditional on the Proposal becoming Effective.

The Scheme Resolutions are **not** conditional on approval of the RE Fees Resolution. If at the Meeting both Scheme Resolutions are approved, but the RE Fees Resolution is not approved, the Proposal will still proceed (provided that all other conditions to implementation of the Proposal are satisfied or waived).

## (d) Voting exclusions and the reasons for those exclusions

Under section 253E of the Corporations Act, CHOML and its Associates are not entitled to vote on a Resolution if they have an interest in that Resolution other than as a member of CQO. Accordingly, no votes will be cast in favour of the Scheme Resolutions or the RE Fees Resolution by CHOML and its Associates.

In accordance with Takeovers Panel Guidance Note 15, any votes in favour of either Scheme Resolution cast by a Bidder or its Associates must be disregarded. In addition, the Bidders and their Associates are precluded from voting on the Resolution to approve the acquisition by the Bidders or their Nominees of all of the Scheme Units for the purpose of item 7 of section 611 of the Corporations Act.

As a result of these voting exclusions, CHCIT (which holds 49,372,206 CQO Units, or 10.01% of the CQO Units currently on issue) and PSP (which holds 5,218,676 CQO Units, or 1.06% of the CQO Units currently on issue) will not vote on either of the Scheme Resolutions.

Reliance Investment Management Pty Ltd (which is the external investment manager of the Charter Hall Property Securities Fund) will not be entitled to vote in respect of the 1,295,000 CQO Units (0.26% of the CQO Units currently on issue) held by JP Morgan Nominees Australia Limited as custodian for Charter Hall Property Securities Fund on any of the Resolutions.

## 1.6 Conditions and termination rights

The implementation of the Proposal is subject to the satisfaction (or waiver) of a number of conditions. The key conditions and brief description of their status are set out below. Other than the condition relating to receipt of the Second Judicial Advice, all the conditions summarised below are required to have been satisfied by and as at 8:00am on the Second Judicial Advice Date:

Condition	Status
<b>Unitholder approval:</b> Unitholders approve by special resolution amendments to the Constitution to facilitate the Proposal and by ordinary resolution the acquisition of the Scheme Units by the Bidders (see section 1.5).	A Meeting of Unitholders is to be held on 15 March 2012 at 10:00am at Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney NSW 2000.
<b>Second Judicial Advice:</b> the Court grants the Second Judicial Advice (described in section 1.4(c)).	The Second Judicial Advice Date is currently scheduled for 16 March 2012.
<b>US Sales Process:</b> the sale of each of the US Assets has completed. See section 1.4(b) for more information.	CHOML is not aware of any reason why this condition will not be satisfied. An update on the US Sale Process is at section 4.3(a).
<b>Independent Expert:</b> the Independent Expert concludes in the Independent Expert's Report that the Proposal is in the best interests of Scheme Unitholders and does not change that conclusion before 8:00am on the Second Judicial Advice Date.	The Independent Expert has concluded in its report that the Proposal is in the best interests of Scheme Unitholders, in the absence of a Superior Proposal. As at the date of this Explanatory Memorandum, CHOML is not aware of any fact or circumstances that would cause the Independent Expert to change that conclusion.
<b>Brandywine consent:</b> Brandywine Operating Partnership, LP gives its written consent to the proposed sale and assignment by Macquarie Office LLC of its 80% interest in Macquarie BDN LLC to BSCP Christina LLC in a form acceptable to the Bidders, acting reasonably, and that consent has not been amended in a way unacceptable to the Bidders, or withdrawn, revoked or terminated.	This consent has been obtained and CHOML is not aware of any reason why this condition will not continue to be satisfied.
<b>Third party consents:</b> the receipt of certain third party consents required as a result of the Proposal.	CHOML has received two of the three third party consents required. CHOML has approached the remaining third party for its consent, and is not aware of any reason why this condition will not be satisfied.
<b>ASIC modifications and ASX confirmations:</b> the regulatory approvals and relief required pursuant to the Scheme Implementation Agreement to facilitate implementation are received from ASIC and ASX.	ASX has provided the confirmations sought by CHOML, set out in section 7.13. ASIC has indicated its willingness, in principle, to grant certain of the relief sought. See section 7.12 for more details.
<b>FIRB approval:</b> Reco and PSP receive the necessary approvals from FIRB.	An application for FIRB review has been submitted by Reco and PSP and assuming FIRB does not seek to extend its time for consideration of the application, approval is expected to be obtained by the Second Judicial Advice Date.
<b>Other regulatory approvals:</b> all other approvals from governmental agencies that CHOML and the Bidders agree are required to implement the Proposal are obtained and not withdrawn.	As at the date of this Explanatory Memorandum, CHOML and the Bidders have not identified any additional regulatory approvals as being required to implement the Proposal.
<b>No CQO Prescribed Occurrence, CQO Material Adverse Change or breach of CHOML Warranty:</b> no CQO Prescribed Occurrence or CQO Material Adverse Change occurs or becomes known to a Bidder, and there is no breach of a CHOML Warranty.	CHOML is not aware of any such occurrence, change or breach, other than which has been waived by the Bidders.
<b>No material breach of Bidder Warranty:</b> there is no material breach by a Bidder of a Bidder Warranty.	CHOML is not aware of any such breaches.
<b>No restraints:</b> no restraint imposed by a court or other governmental agency that prohibits, materially restricts, makes illegal or restrains the completion of Proposal remains in effect.	CHOML is not aware of any such restraint being in effect at the date of this Explanatory Memorandum, or of any reason why such a restraint would be in effect on the Second Judicial Advice Date.

# 1. Proposal

The previous table is by way of summary only. The full terms of the conditions are contained in the consolidated version of the Scheme Implementation Agreement released to ASX on 10 February 2012 (containing certain technical amendments), a copy of which CHOML will provide, free of charge, to any Unitholder who requests it prior to the Meeting Date.

If a condition is not satisfied by 9:00am on the Business Day before the Second Judicial Advice Date, CHOML and the Bidders have agreed that, unless there is no reasonable prospect that the condition will be satisfied, the Second Judicial Advice Date will be deferred (not later than the Business Day before the End Date) to allow such time as is reasonably required to enable satisfaction of the condition.

The Scheme Implementation Agreement also contains a number of termination rights, which are summarised in section 7.2 of this Explanatory Memorandum.

## 1.7 Further questions you may have

### (a) What are my choices?

You may:

- ◆ vote in favour of the Scheme Resolutions at the Meeting and, if the Proposal becomes Effective and is implemented, your Scheme Units will be transferred to the Bidders, you will receive the Scheme Cash Consideration, the Implementation Distributions, the Scheme Contingent Consideration and US Sales Distributions and you will cease to hold CQO Units;
- ◆ vote against the Scheme Resolutions at the Meeting (but your Scheme Units will still be transferred to one or more of the Bidders and you will still receive the Scheme Cash Consideration, the Implementation Distributions, the Scheme Cash Consideration, the Implementation Distributions, the Scheme Contingent Consideration and US Sales Distributions if, in spite of your vote, the Proposal becomes Effective as a result of, amongst other things, the Scheme Resolutions being passed by the requisite majorities, and is implemented. If passed by the requisite majorities, the Scheme Resolutions will bind all Unitholders);
- ◆ sell your CQO Units before the Record Date, in which case you will not be entitled to the Scheme Cash Consideration, Implementation Distributions or the Scheme Contingent Consideration if the Proposal becomes Effective and is implemented (although you may still be entitled to US Sales Distributions if the record date of any such distributions falls before you transfer your CQO Units); or
- ◆ do nothing (and if the Proposal becomes Effective and is implemented, your Scheme Units will be transferred to one or more of the Bidders and you will receive the Scheme Cash Consideration, the Implementation Distributions, the Scheme Contingent Consideration and US Sales Distributions).

See section 3 of this Explanatory Memorandum for more information about what happens if the Proposal becomes Effective.

### (b) What will happen if the Proposal doesn't proceed?

If the Proposal does not proceed, you will continue to hold your ASX-listed CQO Units and to be exposed to the benefits and risks associated with being a Unitholder. Unitholders will receive any distributions of US Sales Proceeds regardless of whether the Proposal becomes Effective.

Depending on the reasons for the Proposal not proceeding, CHOML may be liable to pay a break fee to the Bidders out of the assets of CQO.

The consequences of the Proposal not proceeding are more fully set out in section 2.3 of this Explanatory Memorandum.

### (c) What are the tax implications of the Proposal?

Tax implications will depend on your personal taxation and financial circumstances. General information about likely Australian taxation implications is set out in section 6 of this Explanatory Memorandum. However, you should seek your own professional taxation and financial advice which takes into account your particular circumstances.

### (d) Will I have to pay brokerage or stamp duty?

Scheme Unitholders will not incur any brokerage or stamp duty on the transfer of their Scheme Units pursuant to the Proposal.

### (e) When will the results of the Meeting be available?

The results of the Meeting will be available shortly after the conclusion of the Meeting and will be announced to ASX as soon as practicable.

### (f) Will I keep the half year distribution?

Unitholders who held their CQO Units at 5.00pm on 30 December 2011 remain entitled to receive the \$0.11 per CQO Unit distribution for the half-year ended 31 December 2011, which is payable on or around 21 February 2012, regardless of the outcome of the Proposal. This distribution consists of approximately 7.2 cents per CQO Unit from the Australian operations of CQO, with the balance from the US operations of CQO, for the half year ended 31 December 2011.



**(g) Will I receive any distribution of income generated by the Australian Assets of CQO for the period between 1 January 2012 and the Implementation Date?**

If the Proposal becomes Effective and is implemented, you will not receive any distributions of income derived by CQO from its Australian Assets in the period between 1 January 2012 and the Implementation Date.

However, if the Implementation Date occurs after 31 March 2012 the amount of the Bidders' additional debt costs that Scheme Unitholders will bear will be reduced by reference to the agreed notional level of earnings of CQO over the extended period (see section 3.2(b) of this Explanatory Memorandum for more information).

**(h) Will I still receive distributions of the US Sales Proceeds if the Proposal doesn't proceed?**

As described in more detail in section 3.2(b) of this Explanatory Memorandum, US Sales Distributions will be paid by CHOML to Unitholders regardless of the outcome of the Proposal.

**(i) What if I want further information?**

If you have any questions in relation to the Proposal, please call the Unitholder information line on 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia) Monday to Friday between 8.30 am and 7.30 pm (Sydney time).

This Explanatory Memorandum is also available online at [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo), together with any further documents and announcements in relation to the Proposal.

For information about your individual financial or taxation circumstances, please consult your investment, tax or other legal adviser.

## 2. What are the reasons that you might vote FOR or AGAINST the Proposal?

### 2.1 Reasons why you might vote FOR the Proposal

#### (a) The Independent Directors recommend the Proposal (in the absence of a Superior Proposal)

In considering the Proposal, the Independent Directors reviewed a range of potential alternative strategies which could reasonably be considered to maximise Unitholder value, which were:

- ◆ confidentially approaching Third Parties to assess their willingness to make an alternative proposal. No superior competing proposal has emerged following these discussions;
- ◆ considering a sale of the Australian assets and subsequent wind-up of CQO. The Independent Directors considered that, particularly with regard to the current global economic environment, a sale of the Australian assets at around current book values could take 12 to 18 months or more to complete and that there is no guarantee that the net proceeds of such a sale would exceed the Scheme Cash Consideration and the Implementation Distributions after selling costs had been taken into account. Therefore, the Independent Directors concluded that the Proposal offers a more certain outcome and the potential upside, if any, in a wind up is outweighed by the risk of achieving it and the time taken to do so; and
- ◆ retaining CQO as an ASX listed entity. Further discussion about the Independent Directors' evaluation of this strategy is outlined in the remainder of this section 2.1(a).

There is no certainty that the alternative strategies, as listed above would provide Scheme Unitholders with greater value than the Proposal.

The Proposal provides Scheme Unitholders with an opportunity to realise value for their investment in CQO at a premium to its trading history prior to the emergence of the original approach by a consortium on 26 August 2011, albeit at a slight discount to the Pro Forma Australian Unaudited NTA per CQO Unit.<sup>19</sup>

Also significant to the Independent Directors Committee's conclusion is that CQO Units have not traded at a price which exceeds the estimated value of payments to be made to Scheme Unitholders if the Proposal becomes Effective (being \$2.49 per Scheme Unit together with the estimated amount of \$1.11 of US Sales Distributions and Scheme Contingent Consideration<sup>20</sup>) since the announcement by CHOML on 29 August 2011 of the initial approach by the original consortium.

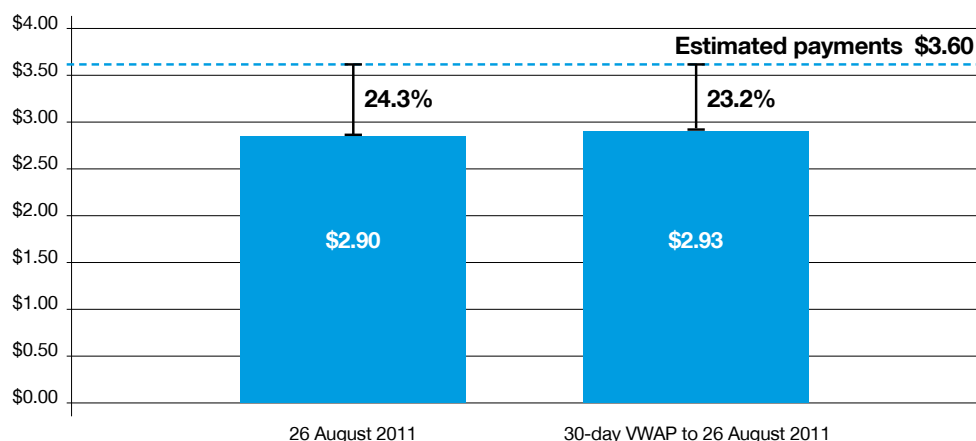
The Independent Directors Committee considered external factors facing CQO such as the impact on CQO of continuing volatile global economic and financial conditions and CQO specific risks such as impending expiries of material leases which underpin CQO's earnings.

The Independent Directors Committee considers that the Proposal provides certainty of value to Scheme Unitholders at a time when continuing volatile global economic and other factors, and a slower than previously expected recovery in the Australian property market, cast doubt over the medium term prospects of CQO Units trading at or above their net tangible asset backing.

For those, and for the additional reasons outlined in the remainder of section 2.1 of this Explanatory Memorandum, each Independent Director recommends the Proposal, in the absence of a Superior Proposal.

#### (b) The Proposal represents a premium to the Undisturbed Trading Price of CQO Units

The estimated aggregate value of the Proposal to Scheme Unitholders of \$3.60<sup>21</sup> represents a 24.3% premium to the closing price of CQO Units of \$2.90 on 26 August 2011, the day prior to the announcement of the consortium's initial approach and a 23.2% premium to the 30-day volume weighted average price (VWAP) to 26 August 2011 of \$2.93.



19. Please refer to section 4.5 of this Explanatory Memorandum for information about the Pro Forma Australian Unaudited NTA and for a reconciliation of Unaudited NTA to Pro Forma Australian Unaudited NTA.

20. Please refer to sections 3.2(b) and 3.2(c) of this Explanatory Memorandum for further information including the key assumptions and qualifications in relation to these estimates.

21. Comparison of the cash payments under the Proposal to CQO recent trading prices is complicated by the separate sale of the United States Assets, which is currently underway. The trading price of CQO Units incorporates value attributable to the United States Assets (until such time as the net proceeds of sale are distributed to Unitholders) as well as value attributable to the Australian Assets of CQO. To provide some guidance for Unitholders, this comparison has been carried out by adding the estimated net proceeds from the sale of the United States portfolio and (taking into account the hedging program for a portion of the net sale proceeds) to the cash payments under the Proposal and comparing this combined payment to CQO trading prices. On that basis, \$1.11 has been estimated as the value of the US Sales Distributions and Scheme Contingent Consideration and this has been added to the \$2.49 payment comprising the Scheme Cash Consideration and Implementation Distributions. The addition of these two amounts gives a total of \$3.60. The actual amount received on account of US Sales Distributions and Scheme Contingent Consideration may vary. Please refer to section 3 for further information including the key assumptions and qualifications in relation to the estimates of these payments.

**(c) CQO unitholders to receive cash payments at a small discount of 3.9% to Pro Forma Australian Unaudited NTA as at 31 December 2011**

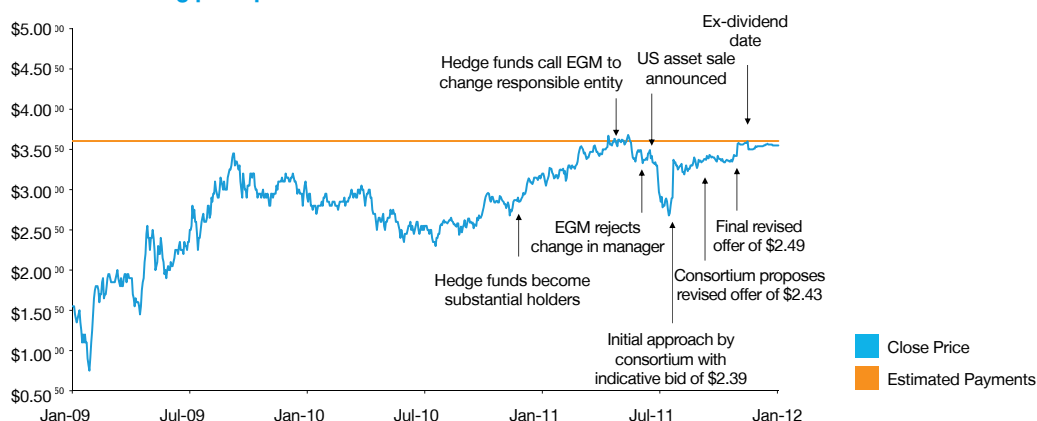
As the sales of the US Assets will have been completed by the time of implementation of the Proposal (see section 4.3(a) of this Explanatory Memorandum), the Australian Assets will be the only material property assets of CQO from the Implementation Date. The Pro Forma Australian Unaudited NTA of CQO as at 31 December 2011 equates to \$2.59 per CQO Unit. The payment of \$2.49 per Scheme Unit, which is payable by the Bidders to Scheme Unitholders on or as soon as reasonably practicable after the Implementation Date, delivers certain value in cash to Scheme Unitholders, even though it is at a slight discount of 3.9% to the Pro Forma Australian Unaudited NTA.<sup>22</sup>

**(d) In the absence of the Proposal, the trading price of CQO Units may fall**

If the Proposal is not implemented, and in the absence of a Superior Proposal, CQO Units are likely to trade below the price at which they have traded since the original approach from the consortium was announced by CHOML on 29 August 2011 and at a level below the estimated aggregate value of the Proposal to Scheme Unitholders of \$3.60.<sup>23</sup>

In addition, the future trading price of CQO Units will continue to be subject to any market volatility versus the certain value of accepting the cash payment of \$2.49 per Scheme Unit available under the Proposal.

**CQO Unit trading price performance<sup>24</sup>**



**(e) No superior competing proposal**

No superior competing proposal has been received by CHOML following the announcement of the original approach from the original consortium on 29 August 2011.

**(f) Conclusion of the Independent Expert**

Grant Samuel & Associates Pty Limited has been appointed as the Independent Expert and has prepared the Independent Expert's Report. The Independent Expert has concluded that the Proposal is fair and reasonable to, and in the best interests of, Scheme Unitholders in the absence of a Superior Proposal.

The Independent Expert assessed the adjusted Pro Forma Unaudited Australian NTA to be in the range \$2.49-2.56 per CQO Unit (**IE Valuation Range**).<sup>25</sup> The cash payment under the Proposal of \$2.49 per CQO Unit is within this range (albeit at the low end) and therefore the Independent Expert has found that the Proposal is fair. On the basis of this conclusion, the Independent Expert has concluded that the Proposal is also reasonable. As the Proposal is fair and reasonable, the Independent Expert has concluded that the Proposal is in the best interests of Scheme Unitholders, in the absence of a Superior Proposal.

The Independent Expert has noted that the adjusted Pro Forma Unaudited Australian NTA has been calculated based on unaudited financial information as at 31 December 2011. The Independent Expert has noted that the movements in the pro forma NTA of the Australian portfolio as a result of the review of the financial statements by CQO's auditors could result in the \$2.49 cash payment falling below the low end of the IE Valuation Range. However the Independent Expert has found that, unless there was a substantial increase in the pro forma NTA of the Australian portfolio, it is likely that even if the Proposal was not fair it would still be reasonable. On this basis, the Independent Expert has found that the Proposal would continue to be in the best interests of Scheme Unitholders.

Further detail is contained in the Independent Expert's Report contained in Attachment F of this Explanatory Memorandum.

**(g) No sales brokerage**

There is no sales brokerage payable by Scheme Unitholders under the Proposal on the transfer of their Scheme Units to the Bidders.

22. Please refer to section 4.5 for an explanation of the Pro Forma Adjustments to the Unaudited Balance Sheet as at 31 December 2011 including a reconciliation of Unaudited NTA to Pro Forma Australian Unaudited NTA.

23. For the purposes of calculating this value, \$1.11 has been estimated as the value of the US Sales Distributions and Scheme Contingent Consideration and this has been added to the \$2.49 payment comprising the Scheme Cash Consideration and Implementation Distributions. The actual amount received may vary. Please refer to section 3 for further information including the key assumptions and qualifications in relation to the estimates of these payments.

24. Estimated Payments are, in aggregate, \$3.60 per Scheme Unit. See note 21.

25. The adjusted Pro Forma Unaudited Australian NTA represents the estimated realisable value of CQO's Australian portfolio, assuming 100% was available to be acquired.

## 2. What are the reasons that you might vote FOR or AGAINST the Proposal?

### 2.2 Reasons why Unitholders might consider voting AGAINST the Proposal

#### (a) You might disagree with the conclusions of the Independent Directors Committee and the Independent Expert

You may believe that rejecting the Proposal and continuing to hold CQO Units may return greater value over time through an improved trading price.

#### (b) You may believe that a superior competing proposal may emerge

Although a superior competing proposal has not been received to date, you may believe that by continuing to hold CQO Units you may receive a superior proposal in the future.

#### (c) Discount to Pro Forma Australian Unaudited NTA as at 31 December 2011

The cash payment of \$2.49 per Scheme Unit to be paid to Scheme Unitholders on or as soon as reasonably practicable after the Implementation Date reflects a discount of 3.9% to the Pro Forma Australian Unaudited NTA as at 31 December 2011 of \$2.59 per CQO Unit.<sup>26</sup> You might not be prepared to sell your Scheme Units at any discount to NTA.

#### (d) Methodology adopted for payment of the US Sales Proceeds

Although the majority of the US Sales Proceeds are expected to be paid to Unitholders prior to the Implementation Date by way of one or more US Sales Distributions, as described in more detail in section 3.2(b) of this Explanatory Memorandum, some proceeds may not have been received by CQO and some are to be withheld and equivalent amounts paid into the Escrow Account to meet potential liabilities and costs. Eligible Unitholders will be entitled to receive these additional amounts from the Escrow Account (after payment by the Escrow Agent from these amounts any liabilities and costs) as described in more detail in section 3.2. You may prefer to retain your CQO units until all US Sale Proceeds have been distributed.

#### (e) You may not consider it to be the right time to exit your investment in CQO

You may believe that Australian and international market conditions may improve in the future and that this would result in either a trading price in excess of the amounts represented by the Proposal, or a superior competing proposal. In particular, you may believe that the Australian office market is going to experience improved returns and growth. You may believe that disposing of your Scheme Units now would prevent you from receiving the benefit of such a recovery. Therefore you may wish to retain your investment in CQO as an ASX-listed entity.

#### (f) Tax implications may not be optimal for your circumstances

Implementation of the Proposal may trigger Australian tax consequences for Unitholders earlier than may have otherwise been the case, including potential capital gains tax. Further detail is contained in the Taxation Report prepared by Greenwood & Freehills, set out in section 6 of this Explanatory Memorandum.

### 2.3 What happens if the Proposal does not proceed?

#### (a) Strategy and intentions for CQO if the Proposal does not proceed

If the Proposal is not implemented, CQO will continue to be listed on ASX and will continue to be managed by CHOML in line with its strategy, outlined in section 4.1(b) of this Explanatory Memorandum.

If the Proposal is not implemented, Scheme Unitholders will continue to hold their Scheme Units and will not receive the Scheme Cash Consideration, the Implementation Distributions or any Scheme Contingent Consideration.

#### (b) Distributions and distribution policy

Regardless of the outcome of the Proposal:

- ◆ Unitholders who held CQO Units as at 30 December 2011 will still receive the \$0.11 distribution in respect of the half-year ended 31 December 2011 that was previously announced by CHOML;
- ◆ Unitholders who hold CQO Units at the relevant record date(s) will still receive any distributions of US Sales Proceeds that are announced by CHOML; and
- ◆ CHOML will continue to target a distribution ratio payout of 75% to 90% of earnings.

26. Please refer to section 4.5 for an explanation of the Pro Forma Adjustments to the Unaudited Balance Sheet as at 31 December 2011 including a reconciliation of Unaudited NTA to Pro Forma Australian Unaudited NTA.



### **(c) Break Fee**

Depending on the reasons for the Proposal not proceeding, CHOML may have to pay a Break Fee of \$11 million to the Bidders out of the assets of CQO. Further detail on the Break Fee is set out in section 7.3(b) of this Explanatory Memorandum.

### **(d) Risks associated with CQO if the Proposal does not proceed**

In the absence of the Proposal, there is a risk that CQO Units will trade at a lower price than the price at which they have traded since the original approach by a consortium was announced in August 2011, having regard to the trading price of the CQO Units prior to the announcement of the indicative proposal on 29 August 2011. Since announcement of the Proposal, there has been a significant turnover in CQO's Unitholder register with a significant increase in investors who have acquired CQO units and who CHOML believes may have an investment strategy with the objective of making a small profit between their acquisition price and the payments received under the Proposal (commonly referred to as "arbitrage hedge funds"). If the Proposal does not proceed those Unitholders may seek to sell their positions quickly which may lead to CQO Unit price weakness.

In addition, if the Proposal does not become Effective, there are existing risks relating to CQO's business and an investment in CQO which will continue to be relevant to you. Two specific such risks are:

- ◆ CQO receives approximately 18% of its rental receipts from the financial services sector. It is widely reported that financial services companies have been reducing the number of employees in their workforces. This may reduce the prospect of these tenants renewing their entire leased space with CQO when they expire. If CQO is unable to re-lease such space, CQO's income and property values may be adversely impacted. This is a risk confronting many Australian office real estate investment trusts with exposure to the financial services sector; and
- ◆ the leases of 2 major financial sector tenants representing 14% of CQO's Australian gross income are due to expire in the financial year ending 30 June 2015. There can be no guarantee that leases on similar terms will be able to be renegotiated with existing tenants, or that alternative tenants will be able to be found. If this occurs, income and property values may be adversely impacted.

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

#### 3.1 Summary of payments to Unitholders

##### (a) Roadmap

The payments to Unitholders in the event of implementation of the Proposal are summarised in the table and accompanying chart below:

Type of payment	Eligibility	Estimated amount	Timing of despatch of relevant payment
Scheme Cash Consideration	Scheme Unitholders <sup>27</sup> only	\$1.84 per Scheme Unit	Implementation Date or as soon as reasonably practicable thereafter (currently expected to be 30 March 2012)
Implementation Distributions	Scheme Unitholders and Excluded Unitholders	\$0.65 per CQO Unit	Implementation Date or as soon as reasonably practicable thereafter (currently expected to be 30 March 2012)
Scheme Cash Consideration + Implementation Distributions		\$2.49 <sup>28</sup>	
US Sales Distributions	All Unitholders holding at the record date of the relevant US Sales Distribution	at least \$0.96 per CQO Unit <sup>29</sup>	On or before the Implementation Date (to be paid regardless of whether the Proposal becomes Effective)
Scheme Contingent Consideration	Scheme Unitholders and Excluded Unitholders	up to \$0.15 per CQO Unit <sup>30</sup>	Not earlier than 6 months after the Implementation Date (currently expected to be 30 September 2012) <sup>31</sup>
US Sales Distributions + Scheme Contingent Consideration		\$1.11 <sup>32</sup>	

27. A Scheme Unitholder is a person who holds Scheme Units as at the Record Date.

28. The \$2.49 amount is fixed. Please see section 3.2(a) of this Explanatory Memorandum for more information about the calculation of the Scheme Cash Consideration and the Implementation Distributions.

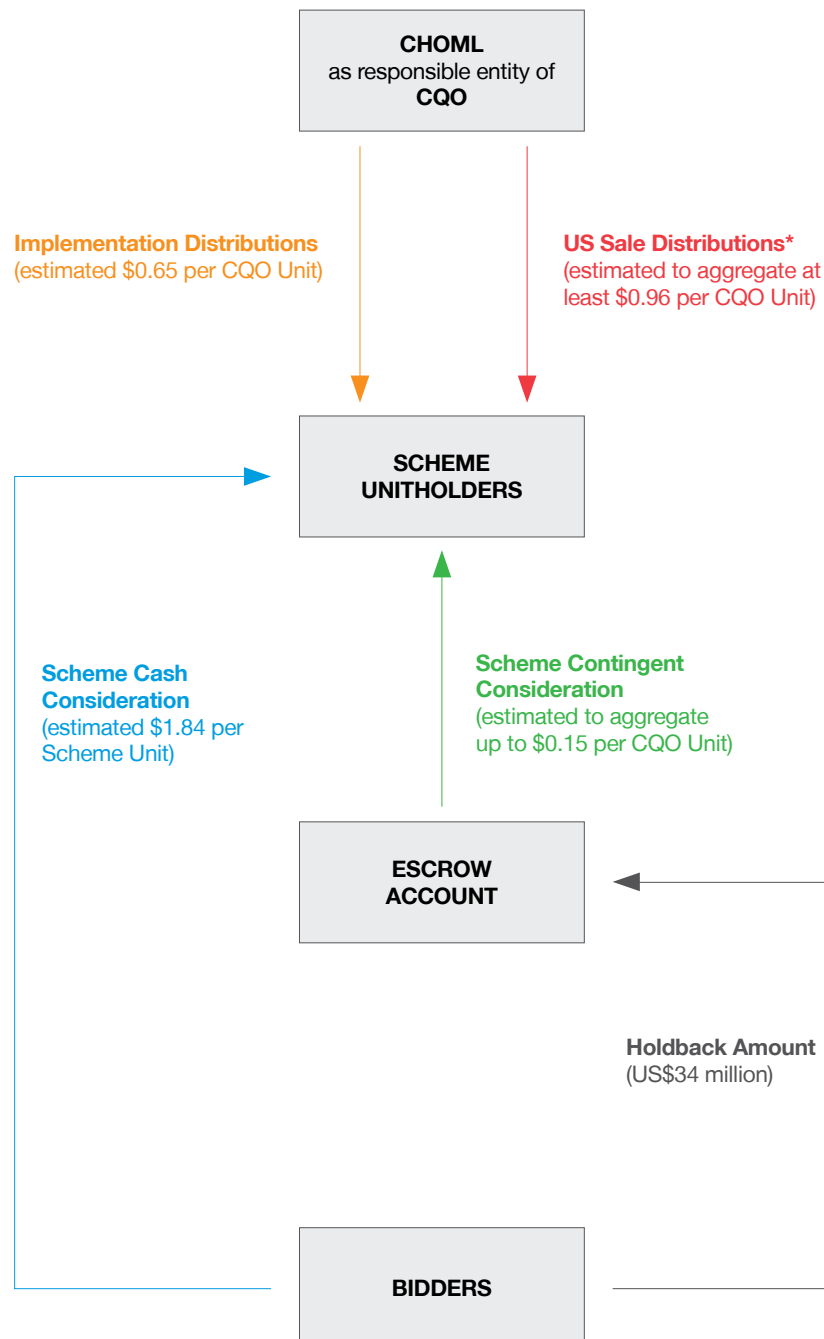
29. For more information about this estimate, please see section 3.2(b) and the qualifications and assumptions therein.

30. For more information about this estimate, please see section 3.2(c) and the qualifications and assumptions therein.

31. As set out in section 3.2(c), the timing of any payments of Scheme Contingent Consideration is subject to a number of variables, including whether any Relevant Claims have arisen. Accordingly, there can be no assurance that any or all the Scheme Contingent Consideration will in fact be paid on 30 September 2012.

32. Please refer to sections 3.2(b) and 3.2(c) of this Explanatory Memorandum for further information including the key assumptions and qualifications in relation to these estimates.

**(b) Flow chart of payments to Scheme Unitholders if the Proposal proceeds**



\*Note: If the record date fixed for any US Sales Distributions falls on a day earlier than the Record Date, there may be Unitholders eligible to receive that US Sales Distribution who are not Scheme Unitholders if they transfer their CQO Units following the record date of the relevant distribution but before the Record Date.

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

#### 3.2 Outline of payments to Unitholders

##### (a) Scheme Cash Consideration and Implementation Distributions

On or as soon as reasonably practicable after the Implementation Date, Scheme Unitholders will be paid \$2.49 per Scheme Unit comprising:

- ◆ an estimated \$1.84 per Scheme Unit (the Scheme Cash Consideration), which is to be paid by the Bidders; and
- ◆ an estimated \$0.65 per Scheme Unit of Implementation Distributions to be paid by CHOML.

Excluded Unitholders will also receive the Implementation Distributions. This is because the distributions are payable to all Unitholders who hold CQO Units as at the Record Date.

The Implementation Distributions will comprise:

- ◆ an amount of \$0.59 per CQO Unit (the **First Implementation Distribution**), which is to be funded to the maximum extent from CQO available cash at the time of payment and the balance by drawing down on the Implementation Date on a new debt facility to be entered into by CHOML (the **New CQO Debt Facility**) (see section 5.5 of this Explanatory Memorandum); and
- ◆ an amount of approximately \$0.06 per CQO Unit (the **Second Implementation Distribution**), which is to be paid by CHOML out of US Sales Proceeds. This distribution is of USD34 million prior to conversion into Australian dollars at the Exchange Rate at 9am (Sydney time) the third Business Day before the Record Date (**Calculation Date**). This distribution is funded out of US Sales Proceeds.

**Regardless of the Exchange Rate prevailing on the Calculation Date, the combined value of the Scheme Cash Consideration and the Implementation Distributions per Scheme Unit will be a fixed Australian dollar amount of \$2.49 per Scheme Unit, so Scheme Unitholders are not exposed to any movements in the Exchange Rate.**

##### (b) US Sales Distributions

As the completion of the US Asset Sales is a condition to implementation of the Proposal (unless that condition is waived by the Consortium), before the Proposal may be implemented, the US Asset Sales will each have completed (see section 1.6 of this Explanatory Memorandum). Under the terms of the Scheme Implementation Agreement, CHOML is permitted to make distributions of part of the US Sales Proceeds to all Unitholders on or before the Implementation Date (all such distributions, excluding the Second Implementation Distribution, referred to in this Explanatory Memorandum as **US Sales Distributions**).

The payment to Unitholders of any US Sales Distributions is not contingent on the implementation of the Proposal, but will depend on the US Asset Sales successfully completing.

CHOML intends to make US Sales Distributions to all Unitholders to the fullest extent possible, regardless of whether the Proposal becomes Effective. In the event the Proposal becomes Effective, CHOML expects to make US Sales Distributions of at least USD495 million (that is, a distribution estimated to be at least \$0.96 per CQO Unit (or multiple special distributions estimated to aggregate to at least \$0.96 per CQO Unit)<sup>33</sup> on or before the Implementation Date.

The total amount of US Sales Distributions may be higher than USD495 million to the extent that less than USD80 million of US Sale Proceeds is required to be set aside as a provision to provide for certain payments by, and contingent liabilities and costs of, CHOML, being:

- ◆ the USD34 million used to fund the Second Implementation Distribution referred to in section 3.2(a) above;
- ◆ as at the Effective Date, any actual, potential and contingent Holdback Liabilities, as follows:
  - (US Taxes) an amount of approximately USD2.7 million, being the CQO Group's estimated US tax liability in respect of the sale of the US Assets (note that this amount may change if there is a change in the information on which the estimate was based or a change in applicable law or practice of any Tax authority) (**US Taxes**);
  - (Offshore Liabilities) the amount of any **Offshore Liability** (in summary, any liability of any non-Australian Subsidiary of CQO or any other liability of another CQO Group Member in relation to any current or previous assets, businesses or operations of such a non-Australian entity) which is presently owing but if identified before the Effective Date these must be discharged out of the US Sales Proceeds prior to the Implementation Date (no such Offshore Liabilities are currently known, however, CHOML is aware of a potential claim in relation to the February 2010 contract for the sale of CQO's Frankfurt asset and, although no claim has been made, CHOML has taken into account the potential amount of such a claim in determining estimated Scheme Contingent Consideration amounts);
  - (Relevant Claims) the amount of any **Relevant Claims** (in summary, any claims in respect of future or contingent Offshore Liabilities)<sup>34</sup> that have been received, made or brought prior to the Effective Date (but only to the extent that such amounts, when aggregated with all deductions from available US Sales Proceeds referred to in this section 3.2(b) (apart from the Relevant Claims amounts themselves), does not exceed USD80 million);

33. In determining the US Sale Distributions, it is assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million of assumed US Sale Proceeds are assumed estimates of movements in working capital, sale costs, debt transfer, taxation charges and debt termination costs. The actual amount of the adjustments may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of receipt of US Sale Proceeds and the US Sales Distributions.

34. As an example, if a claim against a CQO Group Member arose in relation to the representations and warranties provided under the US Sale Contract by a CQO Group Member, such a claim would constitute a Relevant Claim. As noted in section 4.3(a), a number of representations and warranties were provided under the US Sale Contract to the US Asset Purchaser in relation to matters such as CQO's title to the US Assets and the absence of any pending material litigation. Were one of those warranties to be incorrect or untrue in a material respect, and the US Asset Purchaser suffered damage or expense or incurred a liability as a consequence, the US Asset Purchaser could bring a claim to recover in respect of that damage or expense. Such a claim would be a "Relevant Claim" and would be dealt with by the CQO Committee as set out in section 3.6(a).



- (Bidders' additional debt costs) if implementation of the Proposal occurs on or after 1 April 2012, an amount equal to the increased debt funding costs of the Bidders as a result of implementation occurring after that date less an amount based on the agreed notional level of earnings of CQO over the extended period (the maximum net amount which may be deducted is approximately \$3 million);
- (sell-side costs) any amount by which the costs and fees of CHOML's advisers and the Independent Directors Committee exceed \$5 million (this is not expected to be the case); and
- (ATO review) any amount of actual or estimated potential Australian tax liabilities and costs in connection with a review of CHOML being undertaken by the ATO (the amount to be held back is expected to be no more than \$4 million, although the amount of the liability, if any, may be less).

Section 4.3(e) of this Explanatory Memorandum contains a sensitivity analysis of the US Sales Distributions (as well as of the Scheme Contingent Consideration) and, subject to the qualifications expressed in that section, demonstrates the impact on the US Sales Distributions of movements in the key variables being: the value of US Sales Proceeds, the prevailing Exchange Rate at the time of repatriation of US Sales Proceeds into Australian dollars and the level of Holdback Liabilities.

### (c) Scheme Contingent Consideration

On the Implementation Date, the Bidders will pay an amount of USD34 million into an interest bearing US dollar-denominated account to be established in the name of the Escrow Agent (**Escrow Account**). Following implementation of the Proposal, the Bidders will also pay additional amounts into the Escrow Account as follows:

- ◆ approximately 6 months after the Implementation Date – an amount equal to the US Sales Proceeds which were withheld from distribution on the Implementation Date to provide for Relevant Claims (as discussed under section 3.2(b) above),<sup>35</sup> plus **Late Received US Sales Proceeds** (any US Sales Proceeds received by CHOML since the Implementation Date; interest on those amounts; and the amount of any successful claims made by a CQO Group Member under the US Sales Contract since the Implementation Date);
- ◆ after that payment, and after all outstanding US Sale Proceeds have been finally received by the CQO Group and the ATO tax review (as discussed under section 3.2(b) above) has been finalised – an amount equal to any additional Late Received US Sales Proceeds; plus any amount remaining out of the amount withheld to provide for the liabilities and costs in connection with the ATO review (see section 3.2(b) above) and interest on that amount; and
- ◆ after the CQO Group's liability for US Taxes in respect of the sale of the US Assets has been finally determined and paid – an amount equal to the amount (if any) remaining out of the amount withheld to provide for that liability and costs (see section 3.2(b) above), and interest on that amount.

The Escrow Agent will then pay amounts out of the Escrow Account pro rata to Eligible Unitholders (Scheme Unitholders and Excluded Unitholders) at certain dates, after applying amounts in that account to meet any liabilities for Relevant Claims and costs associated with administering the holdback arrangements (such costs include, amongst other things, bank and foreign exchange conversion costs, costs of the Escrow Agent, Independent Accounting Expert and members of the CQO Committee and taxes for which the Escrow Agent becomes liable (**Costs**)).

#### (i) Estimate of Scheme Contingent Consideration

As at the date of this Explanatory Memorandum, payments of Scheme Contingent Consideration are estimated to be up to \$0.15 per CQO Unit.<sup>36</sup>

The payments of Scheme Contingent Consideration may vary depending upon a number of factors, including, the prevailing Exchange Rate at the time of payment, the value of the US Sales Proceeds,<sup>37</sup> the existence and quantum of Holdback Liabilities (if any) and the quantum of Costs.

Section 4.3(e) of this Explanatory Memorandum contains a sensitivity analysis of the US Sales Distributions and the Scheme Contingent Consideration and, subject to the qualifications expressed in that section, demonstrates the impact on the Scheme Contingent Consideration of movements in the above key variables.

#### (ii) Payment dates and calculations

The first payment of Scheme Contingent Consideration is expected to occur approximately 6 months after the Implementation Date (that is, on or around 30 September 2012) and is expected to comprise the bulk of the funds in the Escrow Account unless contingent liabilities and costs of the kind referred to in section 3.2 of this Explanatory Memorandum arise. However, because the timing of payments of Scheme Contingent Consideration is subject to a number of variables, described in this section 3.2(c)(ii), there can be no assurance that any Scheme Contingent Consideration will in fact be paid on or around that date.

35. It will not be known until just prior to the Effective Date what amount of US Sales Proceeds will be withheld from distribution on the Implementation Date. Until just prior to the Effective Date, it will not be known what Relevant Claims, if any, will be on foot at this time and therefore the amount of US Sales Proceeds that will need to be withheld from distribution to provide for any Relevant Claims will also not be known until this time.

36. The calculation of the Australian dollar value of the estimated Scheme Contingent Consideration per CQO Unit is based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00, estimated US Sale Proceeds of USD575 million and reflects CHOML's knowledge as at the date of this Explanatory Memorandum of the existence of any Holdback Liabilities and estimates of Costs. It is also assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million of assumed US Sale Proceeds are estimates of movements in working capital, sale costs, debt transfer, taxation and debt termination costs. The actual amount of the adjustments may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of the Scheme Contingent Consideration.

37. See section 4.3(a) of this Explanatory Memorandum for a more detailed description of the US Sales Proceeds and the factors that may affect the final value of the US Sales Proceeds.

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

In summary, the payment dates and the amounts payable by the Escrow Agent out of the Escrow Account (after conversion from US dollars into Australian dollars) on those dates (being, in total, the **Scheme Contingent Consideration**) are as follows:

Name of payment	Initial contingent consideration amount
Timing of payment	On the date which is expected to occur 6 months after the Implementation Date (the <b>6 Month Date</b> ), or such later date that the procedures for review by the Independent Accounting Expert of the relevant amount have been completed (see section 3.5 of this Explanatory Memorandum)
Calculation of payment	<ul style="list-style-type: none"> <li>◆ All amounts then in the Escrow Account; <b>less</b></li> <li>◆ in respect of each Relevant Claim that has been brought prior to the 6 Month Date but which has not been paid, finally determined or unconditionally settled by that date (an <b>Outstanding Relevant Claim</b>), a provision equal to the amount estimated by CHOML to be reasonably necessary to settle or defend such claim in the future, plus estimated external adviser costs (a <b>Relevant Claims Provision</b>); <b>less</b></li> <li>◆ costs up to the 6 Month Date</li> </ul>

Name of payment	Interim Contingent Consideration Amount(s)
Timing of payment	Following the 6 Month Date, on the date that each Outstanding Relevant Claim is paid, finally determined or settled (or such later date that the procedures for review by the Independent Accounting Expert of the relevant amount have been completed).
Calculation of payment	<ul style="list-style-type: none"> <li>◆ Any part of the applicable Relevant Claims Provision for that claim which was not utilised to pay, finally determine or settle the claim or to meet applicable costs; <b>less</b></li> </ul> <p>Costs from the date which is 6 months after the Implementation Date up until the date of payment in respect of that Outstanding Relevant Claim (excluding Costs already deducted from another payment of Scheme Contingent Consideration), provided that such amount (and any previous such amounts not paid) exceed \$100,000 and, if there are other Outstanding Relevant Claims at that time, only to the extent that the balance of the Escrow Account after such payment exceeds the aggregate of the Relevant Claim Provisions for those other Outstanding Relevant Claims, plus a buffer equal to the greater of 20% of that aggregate and \$1 million.</p>

Name of payment	Final contingent consideration amount (US Proceeds)
Timing of payment	Following the 6 Month Date, and 10 Business Days after all US Sales Proceeds have been finally received by the CQO Group and the ATO tax review has been finalised (or such later date that the procedures for review by the Independent Accounting Expert of the relevant amount have been completed).
Calculation of payment	<ul style="list-style-type: none"> <li>◆ An amount equal to the sum of US Sales Proceeds received by CHOML after the 6 Month Date; the amount of any successful claims by a CQO Group member under the US Sales Contract received after the 6 Month Date; any amount remaining out of the amount withheld to provide for the liabilities and costs in connection with the ATO review (as discussed under section 3.2(b) above); and interest on those amounts; <b>less</b></li> <li>◆ Costs since the most recent payment date out of the Escrow Account in respect of an Outstanding Relevant Claim.</li> </ul>

Name of payment	Final contingent consideration amount (Claims)
Timing of payment	<p>Following the 6 Month Date, once all Outstanding Relevant Claims have been paid, finally determined or settled on an unconditional basis (or such later date that the procedures for review by the Independent Accounting Expert of that amount have been completed).</p> <p>It is not possible to state a final date by which all Outstanding Relevant Claims (if any) will be paid, finally determined or settled on an unconditional basis. Accordingly, due to this uncertainty, it is possible for there to be delays (potentially lengthy delays) of any payments of final contingent consideration amounts (Claims).</p> <p>However, amounts will only be held back in respect of Relevant Claims brought prior to the 6 Month Date. Claims brought after that date will not affect the timing or quantum of payments of any Scheme Contingent Consideration.</p>
Calculation of payment	<ul style="list-style-type: none"> <li>◆ The balance in the Escrow Account (plus any accrued but unpaid interest); <b>less</b></li> <li>◆ Costs since the most recent payment date out of the Escrow Account in respect of an Outstanding Relevant Claim (to the extent not already discharged);</li> </ul>

Name of payment	US Tax contingent consideration amount
Timing of payment	<p>Once the CQO Group's liability for US Taxes in respect of the sale of the US Assets has been finally determined and paid (or such later date that the procedures for review by the Independent Accounting Expert of that amount have been completed).</p>
Calculation of payment	<ul style="list-style-type: none"> <li>◆ Any amount remaining out of the amount withheld to provide for that liability and costs (as discussed under section 3.2(b) above) and interest on that amount; <b>less</b></li> <li>◆ Costs since the most recent payment date out of the Escrow Account in respect of an Outstanding Relevant Claim (to the extent not already discharged).</li> </ul>

Payments of any Scheme Contingent Consideration out of the Escrow Account is at the direction of the CQO Committee (which will include the 3 members of the Independent Director Committee). The calculation of amounts payable out of the Escrow Account in accordance with the Scheme Implementation Agreement is subject to review by the Independent Accounting Expert. The composition and role and responsibilities of the CQO Committee and the Independent Accounting Expert are explained in sections 3.5 and 3.6 below.

### 3.3 Transfer of Scheme Units on Implementation Date

If the Proposal becomes Effective, then on the Implementation Date all of the Scheme Units will be transferred to the Bidders by way of execution of the Scheme Transfer by CHOML on behalf of Scheme Unitholders and delivery of that transfer to the Bidders and procuring the entry of the name of each Bidder into the Register in the following proportions:

- ◆ 209,660,885 Scheme Units into the name of Reco (or its Nominee);
- ◆ 209,660,885 Scheme Units into the name of PSP (or its Nominee); and
- ◆ 24,625,754 Scheme Units into the name of CHPT (or its Nominee).

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

#### 3.4 Appointment of the Escrow Agent and establishment of the Escrow Account

##### (a) Escrow Agent

Charter Hall Escrow Agent Pty Limited ACN 111 041 564 has been appointed to act as Escrow Agent.

The Escrow Agent will not receive any fees for acting as Escrow Agent. However, the Escrow Agent:

- ◆ is entitled to deduct from the Escrow Account or be reimbursed from the Escrow Account any taxes payable, and reasonably incurred costs and expenses, in connection with the performance of its obligations, any claim in relation to the Escrow Account or the Scheme Implementation Agreement; and
- ◆ will be indemnified by CHOML against all liabilities, including taxes, incurred by the Escrow Agent in connection with the performance or attempted performance of its obligations, any claim in relation to the Escrow Account or the Scheme Implementation Agreement, except any fraud or wilful misconduct of any of its officers or employees where such conduct has been Finally Determined to have occurred (and any amount paid by CHOML under this indemnity will be reimbursed to CHOML from the Escrow Account).

##### (b) Escrow Account

Upon implementation of the Proposal, the Escrow Agent must establish the Escrow Account into which will be deposited by the Bidders the amounts described above in section 3.2(c) of this Explanatory Memorandum. The Escrow Account is to be used to pay any Relevant Claims (including the costs arising from such claims). To the extent that over-provision is made for any Relevant Claims, those surplus funds must also be paid out of the Escrow Account in the form of Scheme Contingent Consideration as described above in section 3.2(c) of this Explanatory Memorandum.

##### (c) Role of Escrow Agent

The role of the Escrow Agent is to make payments out of the Escrow Account of Scheme Contingent Consideration to Eligible Unitholders and to satisfy Relevant Claims, each in accordance with the terms of the Scheme Implementation Agreement.

In taking any action, the Escrow Agent must act upon the written direction provided by a member of the CQO Committee of:

- ◆ the calculation of the Scheme Contingent Consideration amounts (provided those include confirmation that the Independent Accounting Expert has completed its review); and
- ◆ the amount the subject of any Relevant Claim to a claimant (provided that such direction has been given only after the Independent Accounting Expert's review has been completed); and
- ◆ the amount of any costs with which to reimburse CHOML for any external costs reasonably incurred in connection with defending, settling or appealing a Relevant Claim (provided that such direction has been given only after the Independent Accounting Expert's review has been completed).

The Escrow Agent has no duty or obligation to enforce any obligations of the Bidders (including, without limitation, any duty to pay Scheme Contingent Consideration amounts into the Escrow Account).

Finally, the Escrow Agent is under no obligation to pay any component of the Scheme Contingent Consideration to an Eligible Unitholder if it is required to obtain any regulatory licence or approval to do so whether in Australia or elsewhere, and may delay payment until such time as such licence or approval has been obtained. CHOML is not aware, as at the date of this Explanatory Memorandum, of any such licence or approval requirement. It is the obligation of CHOML and the Escrow Agent to use all reasonable endeavours to procure the provision of any necessary regulatory licence or approval if they become aware of any such requirement prior to the implementation of the Proposal.

##### (d) Escrow Agent Deed Poll

On 10 February 2011 the Escrow Agent executed the Escrow Agent Deed Poll in favour of each Scheme Unitholder pursuant to which the Escrow Agent undertakes, subject to the Proposal becoming Effective, to observe and perform all its obligations attributed to it under the Proposal and imposed on it under the Scheme Implementation Agreement in accordance with and subject to the terms of that agreement (including the limitations of liability described in section 3.4(e) of this Explanatory Memorandum).

The obligations of the Escrow Agent under the Escrow Agent Deed Poll automatically terminate if the Scheme Implementation Agreement is terminated in accordance with its terms. A copy of the Escrow Agent Deed Poll is Attachment E to this Explanatory Memorandum.



#### **(e) Limitation of liability of Escrow Agent**

Other than where the Escrow Agent is Finally Determined to have used (or agreed to use) any of the funds in the Escrow Account for any purpose other than for a purpose permitted by the Scheme Implementation Agreement:

- ◆ the Escrow Agent shall have no liability in respect of any amount due by it to any CQO Unitholder or CHOML except to the extent of amounts available in the Escrow Account on the relevant payment date; and
- ◆ each CQO Unitholder and CHOML unconditionally and irrevocably waives all claims it may otherwise have against the Escrow Agent (other than as provided in the previous point) and must not do, and waives any rights it may have to do, any of the following things to the extent that they would be inconsistent with limitation of liability in the previous point:
  - obtain a judgment for the payment of money or damages by the Escrow Agent;
  - issue any demand under section 459E(1) of the Corporations Act (or any analogous provision under any other law) against the Escrow Agent;
  - apply for the winding up of the Escrow Agent;
  - levy or enforce any distress or other execution to, on, or against any assets of the Escrow Agent;
  - apply for the appointment by a court of a receiver to any of the assets of the Escrow Agent;
  - exercise or seek to exercise any set-off or counterclaim against the Escrow Agent; or
  - commence proceedings in relation any of the above.

The statement above may be pleaded as an absolute bar to any claim commenced now or taken at any time by or on behalf of any Unitholder against the Escrow Agent. The statement also reflects the agreement of each Scheme Unitholder and CHOML as set out in the Scheme Implementation Agreement, CQO Constitution (as amended by the Supplemental Deed) and the Escrow Agent Deed Poll, and the limitations set out above must be enforced by CHOML upon written request from the Escrow Agent.

Further, the Escrow Agent is not responsible to the CQO Unitholders for, nor will it be liable in respect of, any failure by another party to perform its obligations under the Scheme Implementation Agreement or Bidder Deed Poll, or any action taken or omitted to be taken by the Escrow Agent under the Scheme Implementation Agreement, except any fraud or wilful misconduct of any of its officers or employees, where such conduct has been Finally Determined to have occurred.

This limitation of liability also reflects the agreement of each Scheme Unitholder and CHOML as set out in the Scheme Implementation Agreement, CQO Constitution (as amended by the Supplemental Deed) and the Escrow Agent Deed Poll, and the limitations must be enforced by CHOML upon written request received from the Escrow Agent.

### **3.5 Independent Accounting Expert and Independent Review Agreement**

#### **(a) Identity of Independent Accounting Expert**

Ernst & Young has been appointed to act as Independent Accounting Expert.

#### **(b) Role**

The Independent Accounting Expert will be responsible for reviewing all calculations made by the CQO Committee of any component of the Scheme Contingent Consideration on the terms and conditions of the Independent Review Agreement.

#### **(c) Independent Review Agreement**

Under the Independent Review Agreement, CHOML engages the Independent Accounting Expert to review and report on the calculations of Scheme Contingent Consideration by the CQO Committee. The Independent Accounting Expert will determine the applicable procedures to be performed, appropriate materiality thresholds and plan the review.<sup>38</sup> The Independent Accounting Expert will report to the CQO Committee on whether, based on that review (which will not be an audit), it has become aware of any matter that makes it believe that the Scheme Contingent Consideration calculation has not been prepared in accordance with the requirements of the Scheme Implementation Agreement. The Independent Accounting Expert will discuss with the CQO Committee any errors or matters identified during the course of its review procedures.

38. If the CQO Committee or the CHOML Board require additional procedures to be performed, a separate engagement letter will be entered into with the Independent Accounting Expert to provide for those certain specified additional procedures.

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

#### 3.6 CQO Committee

##### (a) Purpose and role

CHOML has established the CQO Committee, which is responsible for:

- ◆ calculating the Scheme Contingent Consideration amounts, and determining whether any Scheme Contingent Consideration amounts are payable to Eligible Unitholders out of the Escrow Account;
- ◆ determining whether any amounts are payable to CHOML or to a claimant in connection with a Relevant Claim out of the Escrow Account;
- ◆ liaising with the Independent Accounting Expert in relation to the Independent Reviews and resolving any disagreement with the Independent Accounting Expert arising out of the Independent Reviews;
- ◆ dealing with any Relevant Claims;
- ◆ providing written directions to the Escrow Agent for the Escrow Agent to make payments out of the Escrow Account; and
- ◆ providing written directions to CHOML if required to do so (for example, to challenge an assessment for US Taxes).

##### (b) Composition

The CQO Committee has 6 members (3 of whom are independent of the Charter Hall Group and 3 of whom are employees of the Charter Hall Group and have been appointed by the Bidders). As at the Implementation Date, the CQO Committee will be comprised as follows:

Members appointed by the Independent Directors Committee	Members appointed by the Bidders
Roger Davis	David Harrison
Andrew Love	David Southon
James Broadbent	Bart Price

Membership of the CQO Committee may change from time to time. If at any time there are less than 3 members appointed by the Independent Directors Committee, the remaining members appointed by the Independent Directors Committee (or, if no such members remain, the CHOML Board) may appoint a replacement. If at any time there are less than 3 members appointed by the Bidders, the Bidders may appoint a replacement.

##### (c) CQO Committee Protocols

The proceedings of the CQO Committee will be regulated by the CQO Committee Protocols.

The CQO Committee Protocols deal with the Committee's role (as outlined in section 3.6(a) of this Explanatory Memorandum), membership (including replacement of members and liability between members), operation and interaction with the Escrow Agent, Independent Accounting Expert and CHOML.

Decisions and determinations of the CQO Committee are to be made following the passage of a resolution with a majority of CQO Committee members, including at least one Independent Director Committee appointed representative and one Bidder appointed representative, voting in favour.

Each CQO Committee member is required under the CQO Committee Protocols to, amongst other things, exercise independent judgment in considering any resolution of the CQO Committee.

##### (d) Fees, indemnity and right to reimbursement

CHOML will pay each member of the CQO Committee appointed by the Independent Directors Committee a \$5,000 fee per month of service on the Committee. CHOML will also indemnify each member of the CQO Committee against all liabilities they incur in connection with their role as a CQO Committee member. CHOML will be entitled to indemnification out of the Escrow Account in respect of those fees and indemnities.

In addition, CHOML will be entitled to be reimbursed from the Escrow Account (on behalf of each CQO Committee member) for all reasonably incurred costs and expenses of each CQO Committee member in connection with the performance or attempted performance by them of their duties or as a member of the CQO Committee, any claim in relation to the Escrow Account or other accounts established in accordance with the Scheme Implementation Agreement.

#### **(e) Limitation of liability of CQO Committee members**

The members of the CQO Committee are not responsible to the Unitholders for, nor will any of them be liable in respect of, any failure by another party to the Scheme Implementation Agreement to perform its obligations under the Scheme Implementation Agreement or Bidder Deed Poll, or any action taken or omitted to be taken by the CQO Committee member, except any fraud or wilful misconduct, where such conduct has been Finally Determined to have occurred.

To the maximum extent permitted by law, each Unitholder unconditionally and irrevocably waives all claims they may otherwise have against the CQO Committee members, and must not, and waives any rights they may have to, make any claim against one or more CQO Committee members (and this statement may be pleaded as an absolute bar to any claim commenced now or taken at any time by or on behalf of any Unitholder against any one or more of the CQO Committee members).

#### **3.7 Procedures for payments to Eligible Unitholders**

All amounts payable to Eligible Unitholders in relation to the Proposal will be paid into the bank account that you have nominated to the Registry. If you have not previously notified the Registry of your nominated bank account or would like to change your existing nominated bank account, you should contact the Registry on 1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia) before the Second Judicial Advice Date.

If you do not have a nominated bank account with the Registry as at the Second Judicial Advice Date, you will be sent a cheque to your address which appears on the Register as at the Record Date. If CHOML or the Escrow Agent believe that you are not known at your registered address, you have not nominated a bank account or a deposit into a nominated account is rejected or refunded, all amounts payable to you upon implementation, and after implementation, will be paid into a separate bank account and held by the responsible entity of CQO or the Escrow Agent (as applicable) until claimed or applied under laws dealing with unclaimed money. An amount credited into such an account is to be treated as having been paid to you when credited to the account.

#### **3.8 Payments to Unitholders in New Zealand**

Each Unitholder which has a request for direct credit of payments in New Zealand dollars to a New Zealand bank account recorded with the Registry as at the Record Date (or, in respect of US Sales Distributions, as at the relevant record date for such a distribution) will be paid any amounts to which they are entitled by way of a direct crediting to the New Zealand bank account which is recorded in respect of that Unitholder with the Registry as at the relevant record date. The amount which will be credited to this New Zealand bank account will be an amount equal to the New Zealand dollar equivalent of the amount to which such Unitholder is entitled.

The payments in New Zealand currency will involve conversion of any amounts payable from Australian dollars into New Zealand dollars. The exchange rate for conversion will be established on or about the date of payment to the Unitholder.

This payment in New Zealand dollars to a New Zealand bank account may involve a currency exchange risk and the Unitholder will carry full exchange rate risk relating to any changes in the Australian dollar-New Zealand dollar exchange rate following the conversion of the amount into New Zealand dollars. When the amount is actually paid in New Zealand dollars, those amounts may be worth less (or more) than the Australian dollar amount at the time the exchange rate for conversion was established.

CHOML does not provide any guarantee or representation as to the amount of New Zealand dollars that will be received by the relevant Unitholder.

The relevant Unitholder will not be charged any transaction fee for the currency conversion.

All other Unitholders will receive any payments to which they are entitled in Australian dollars.

### 3. Payments to Unitholders and steps involved in the implementation of the Proposal if the Proposal becomes Effective

#### 3.9 CHOML's undertakings

##### (a) No dealings in the accounts

Under the Scheme Implementation Agreement, CHOML is required to not withdraw funds out of a US Proceeds Account or the US Taxes Account (each as defined in the Scheme Implementation Agreement) which are relevant to the calculation or determination of an amount of Scheme Contingent Consideration until the date on which that amount of consideration has been so calculated or determined in accordance with the terms of the Scheme Implementation Agreement and the Independent Review Agreement.

##### (b) Provision of information

Under the Scheme Implementation Agreement, CHOML is required to do all things reasonably necessary to ensure that the CQO Committee and the Independent Accounting Expert are provided with all the information they reasonably require to undertake an Independent Review in sufficient time before a payment to be made to an Eligible Unitholder such that the payment can be made by the time required.

##### (c) Independent Review Agreement

Under the Scheme Implementation Agreement, CHOML is required to comply with its obligations under the Independent Review Agreement.

##### (d) CQO Committee

Under the Scheme Implementation Agreement, CHOML is required to arrange for the CQO Committee to undertake the activities required of it under the Scheme Implementation Agreement, including arranging for the CQO Committee to provide such written notifications or directions as are required to enable the Escrow Agent to comply with its obligations under the Scheme Implementation Agreement.

##### (e) Enforcement of the Bidder Deed Poll and Escrow Agent Deed Poll

Each Scheme Unitholder has the right, under the Bidder Deed Poll, to enforce performance of each Bidder's obligations under the Scheme Implementation Agreement. Under the Proposal, each Scheme Unitholder irrevocably appoints CHOML and each of its directors and officers as the Scheme Unitholder's agent and attorney to enforce the Bidder Deed Poll against a defaulting Bidder on their behalf. CHOML undertakes to each Scheme Unitholder that it will, on behalf of all Scheme Unitholders, enforce the Bidder Deed Poll should any Bidder default in the performance of its obligations under the Scheme Implementation Agreement. Please see section 5.6 of this Explanatory Memorandum for information about the relationship between the Bidders and their respective liability in respect of the Proposal.

Each Scheme Unitholder has the right, under the Escrow Agent Deed Poll, to enforce the Escrow Agent's obligations under the Scheme Implementation Agreement. Under the Proposal, each Scheme Unitholder irrevocably appoints CHOML and each of its directors and officers as the Scheme Unitholder's agent and attorney to enforce the Escrow Agent Deed Poll against the Escrow Agent on their behalf. CHOML undertakes to each Scheme Unitholder that it will, on behalf of all Scheme Unitholders, enforce the Escrow Agent Deed Poll should the Escrow Agent default in the performance of its obligations under the Scheme Implementation Agreement.





NO. 1 MARTIN PLACE, SYDNEY NSW



## 4. Information about CQO

### 4.1 Background to CQO, its history, structure and strategy

#### (a) CQO background

Charter Hall Office REIT (ASX: CQO) is an ASX-listed real estate investment trust focused on investing in high grade office buildings predominantly located in major business districts across Australia and the United States (the US portfolio is under contract for sale as described in more detail in section 4.3(a) below).

CQO is managed by CHOML, a wholly-owned Subsidiary of the Charter Hall Group and the responsible entity of CQO, one of Australia's leading fully integrated property groups, which has 20 years' experience managing high quality property on behalf of institutional, wholesale and retail clients.

#### (b) Strategy

CHOML's strategy is to provide investors with exposure to high quality Australian CBD office assets. A customer focused approach to asset management drives the leasing and refurbishment initiatives with a view to maximising returns on the underlying assets.

Upon the completion of the US Sales Process, it is expected that CQO will:

- ◆ Comprise a portfolio of high quality well-leased, Australian investment-grade office assets located in capital cities and established suburban CBDs.
- ◆ Have a strategic weighting towards specific Australian markets that are expected to deliver attractive income and capital growth over the long term.
- ◆ Receive secure rental returns from high-quality tenants, particularly government agencies, companies with a stronger credit rating<sup>39</sup> or nationally recognised companies.
- ◆ Have a sustainable and conservative capital structure with a stated target gearing of between 25 – 35%.
- ◆ Deliver attractive and competitive distributions to Unitholders through a distribution payout ratio of between 75 – 90% of earnings depending on capital requirements.

### 4.2 Portfolio

#### (a) Key investment highlights of CQO's portfolio of Australian Assets at 31 December 2011

- ◆ 18 core office assets with a valuation of \$1.85 billion
- ◆ Weighted average market capitalisation rate<sup>40</sup> of 7.79%
- ◆ Weighted average lease expiry<sup>41</sup> of 4.5 years
- ◆ Occupancy of 97%
- ◆ 85% leased to government agencies, companies with a stronger credit rating<sup>42</sup> or nationally recognised companies
- ◆ Predominantly located in Australian capital cities (87% NSW and Victoria)
- ◆ Average 4.5 star NABERS energy rating (including green power).

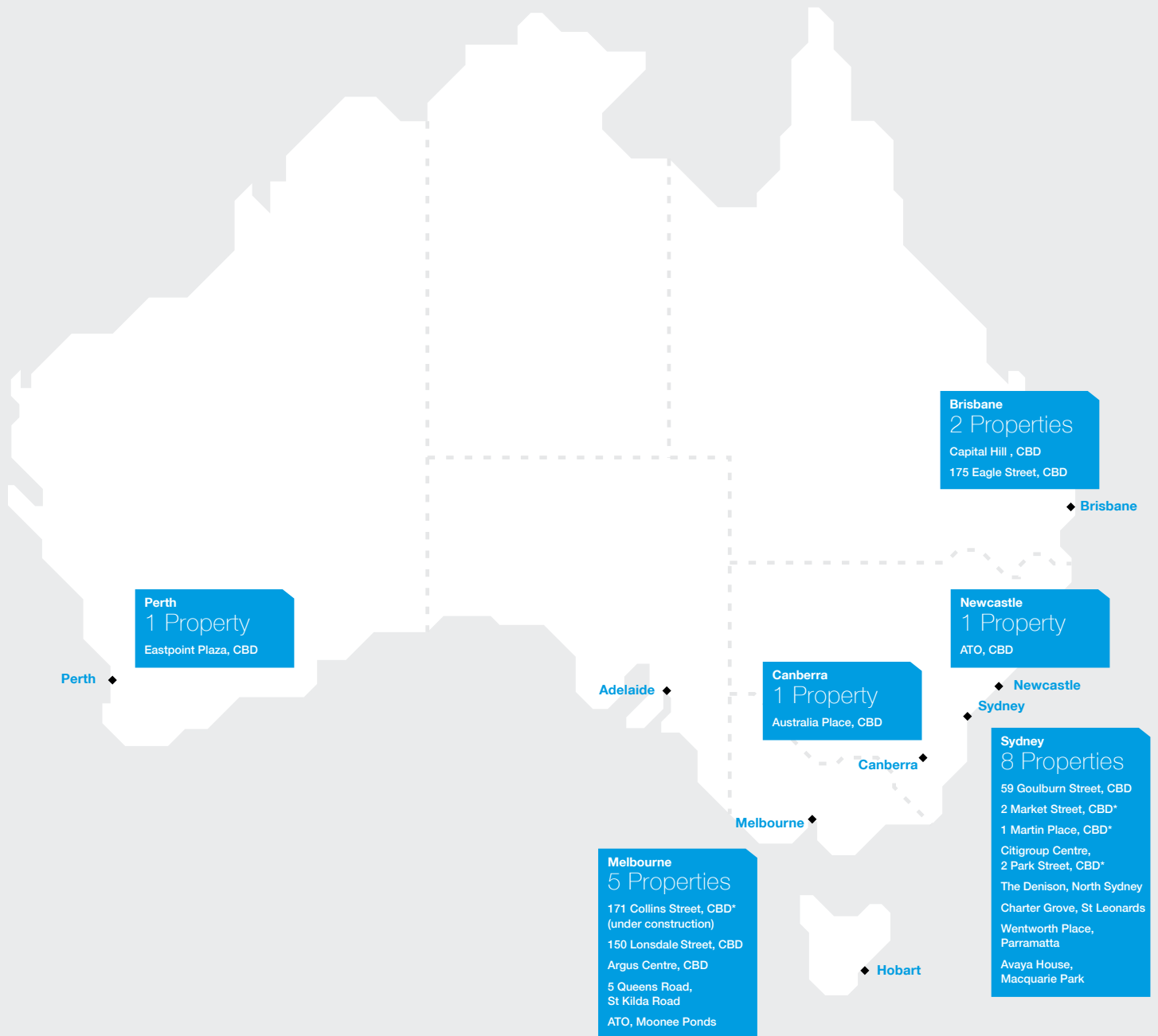
39. A company has a "credit rating" where a credit rating agency has rated the company's risk of default on its debts.

40. Market capitalisation rate is the fully leased market rental of a property divided by the property's value. The weighted average is calculated as the average, determined by the proportion of each property having regard to its value relative to the total value of all properties in the portfolio.

41. Weighted average lease expiry is weighted by each lease's income.

42. See note 39.

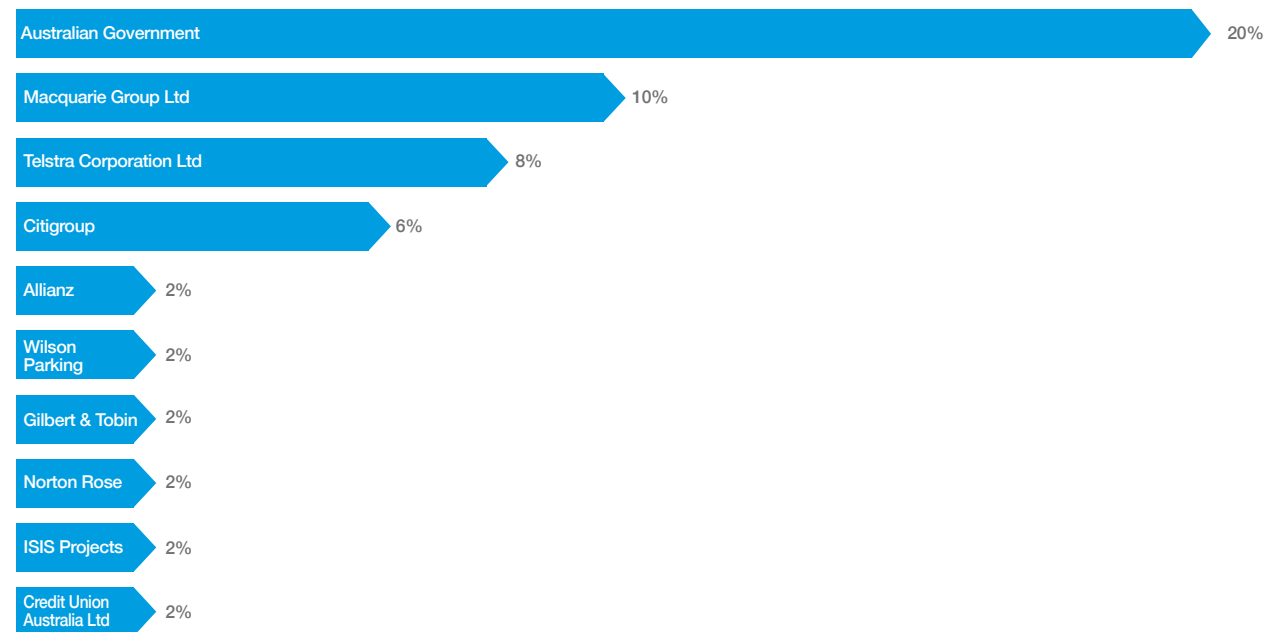
(b) Australian portfolio overview (as at 31 December 2011)



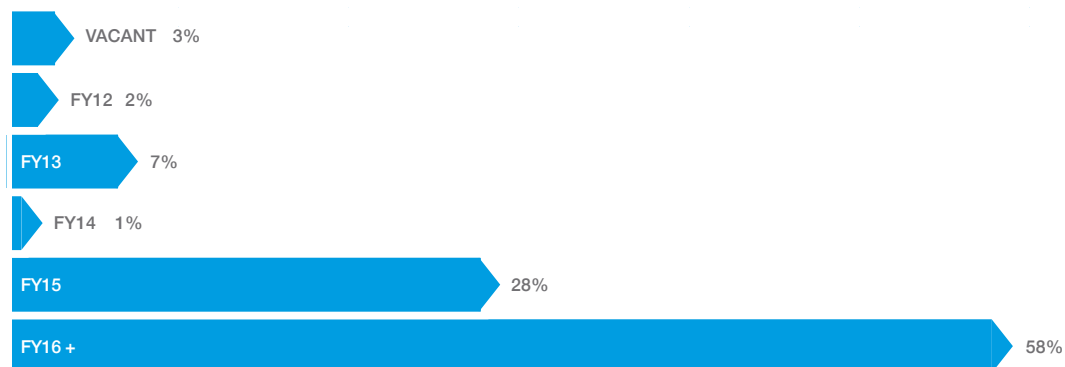
\*50% ownership

## 4. Information about CQO

### Top 10 Tenants (by gross income)



### Annual Lease Expiry (by NLA)



**(c) Australian Assets**

	CQO OWNERSHIP %	NLA (\$QM) 100%	OCCUPANCY	WALE (years)	DEC 2011 BOOK VALUE (\$M)	DEC 2011 CAPITALISATION RATE
<b>CitiCentre</b> 2 Park Street, Sydney NSW	50%	73,510	100%	3.9	\$360.0	6.80%
<b>No. 1 Martin Place</b> Sydney NSW	50%	40,237	90%	3.3	\$225.0	6.70%
<b>Allianz Centre</b> 2 Market Street, Sydney NSW	50%	39,864	100%	6.2	\$171.0	7.00%
<b>59 Goulburn Street</b> Sydney NSW	100%	19,591	83%	2.8	\$88.5	8.50%
<b>The Denison</b> 65 Berry Street, North Sydney NSW	100%	15,123	100%	5.7	\$79.0	8.50%
<b>Charter Grove</b> 29-57 Christie Street, St Leonards NSW	100%	18,081	84%	3.8	\$82.5	9.00%
<b>Avaya House</b> 123 Epping Road, Macquarie Park NSW	100%	16,281	97%	3.9	\$74.0	8.40%
<b>Wentworth Place</b> 9 Wentworth Street, Parramatta NSW	100%	7,672	100%	1.5	\$23.3	9.40%
<b>ATO</b> 266 King Street, Newcastle NSW	100%	14,157	100%	5.3	\$50.0	10.40%
<b>Argus Centre</b> 300 LaTrobe Street, Melbourne Vic.	100%	33,046	100%	10.8	\$137.0	7.50%
<b>150 Lonsdale Street</b> Melbourne Vic.	100%	28,744	96%	3.1	\$131.0	8.00%
<b>171 Collins Street</b> Melbourne Vic. (development site)	50%	N/A	N/A	N/A	\$29.7	N/A
<b>5 Queens Road</b> Melbourne Vic.	100%	17,726	100%	4.0	\$65.0	8.75%
<b>ATO Moonee Ponds</b> 6-20 Gladstone Street, Melbourne Vic.	100%	22,108	100%	8.2	\$77.4	8.50%
<b>175 Eagle Street</b> Brisbane Qld	100%	22,851	100%	2.5	\$119.0	8.25%
<b>Capital Hill</b> 83-85 George Street, Brisbane Qld	100%	10,516	100%	4.3	\$51.0	8.50%
<b>Eastpoint Plaza</b> 233-237 Adelaide Terrace, Perth WA	100%	11,672	100%	4.2	\$58.0	9.00%
<b>Australia Place</b> 14 Mort Street, Canberra ACT	100%	9,384	100%	0.8	\$26.5	9.50%
<b>TOTAL/WEIGHTED AVERAGE</b>		<b>400,562</b>	<b>97%</b>	<b>4.5</b>	<b>\$1,847.9</b>	<b>7.79%</b>

## 4. Information about CQO

### 4.3 US Sale Process

#### (a) Background and update

Subsidiaries of CHOML executed a binding contract on 2 August 2011 to sell 100% of their interests in CHOML's portion of assets located in the United States of America (being the US Assets) for a gross price of USD1.71 billion to entities affiliated with Beacon Capital Partners, LLC.

The completion of the sale of each US Asset is subject to customary closing conditions including:

- ◆ the representations and warranties provided by each party under the US Sale Contract are true and correct in all material respects (which includes matters such as CQO's title to the US Assets and the absence of any pending material litigation);
- ◆ that neither party to the US Sale Contract is in material breach of the US Sale Contract;
- ◆ the receipt of consents from existing lenders to CQO and joint venture partners (if required) and from certain tenants of the US Assets;
- ◆ completion of the sale not occasioning a breach of law or being prevented by order of a court or other governmental authority; and
- ◆ the provision of documentation required to be delivered at completion (for eg assignments and other documentation to transfer title).

As at the date of this Explanatory Memorandum, CHOML is unaware of any reason why any of these conditions precedent will not be satisfied.

The indicative US Sale Proceeds are estimated to be approximately USD575 million<sup>43</sup> following the deduction of transaction costs and adjustments and the repayment or transfer of the debt associated with the US Assets.

As at the date of this Explanatory Memorandum, USD0.7 billion of the USD1.71 billion in gross US Assets have completed and CHOML has received approximately USD309 million (including balances held in escrow by lenders) of the estimated USD575 million in net proceeds. It is expected that the remaining US Asset sales will be completed by mid-March 2012.

#### (b) US Assets

Property	Joint Venture Partner	Status
<b>Wells Fargo Center</b> Denver, CO	MPG Office Trust, Inc.	Pending
<b>One California Plaza</b> Los Angeles, CA	MPG Office Trust, Inc.	Pending
<b>San Diego Tech Center</b> San Diego, CA	MPG Office Trust, Inc.	Pending
<b>Cerritos Corporate Center</b> Cerritos, CA	MPG Office Trust, Inc.	Pending
<b>Stadium Gateway</b> Anaheim, CA	MPG Office Trust, Inc.	Pending
<b>1&amp;3 Christina Center</b> Wilmington, DE	Brandywine Operating Partnership, L.P.	Pending
<b>SunTrust Financial Center</b> Tampa, FL	Stiles Corporation	Completed
<b>Chase Tower</b> Indianapolis IN	n/a – Wholly Owned	Completed
<b>Promenade II</b> Atlanta, GA	n/a – Wholly Owned	Completed
<b>SunTrust Centre</b> Orlando, FL	n/a – Wholly Owned	Pending
<b>700 Thirteenth Street</b> Washington D.C.	n/a – Wholly Owned	Completed
<b>30 Independence Boulevard</b> New Jersey, NJ	n/a – Wholly Owned	Completed
<b>745 Atlantic Avenue</b> Boston, MA	n/a – Wholly Owned	Completed
<b>Pasadena Towers</b> Pasadena, CA	n/a – Wholly Owned	Completed

43. In determining the US Sale Proceeds, it is assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million are estimates of movements in working capital, sale costs, debt transfer, taxation and debt termination costs. The actual amount of the adjustments may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of receipt of US Sale Proceeds. The calculation of the Australian dollar value per CQO Unit of the US Sale Proceeds is based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00 amongst other things. The actual US Sale Proceeds distributed might vary.



### (c) US hedging arrangements

As at the date of this Explanatory Memorandum, the US Sale Proceeds that have been received are USD309 million, including balances held in escrow by lenders. Of these proceeds USD44.1 million has been converted into Australian dollars at an average exchange rate of USD0.96:AUD1.00, resulting in \$45.9 million being received. An additional USD50 million hedge provides a fixed rate to CQO of USD1.04:AUD1.00.

The remaining USD200 million of hedging which matures on 15 February 2012 that CQO has provides a maximum average exchange rate of USD1.02:AUD1.00, and a minimum average exchange rate of USD0.83:AUD1.00. If the prevailing Exchange Rate at maturity falls between these rates this would result in these hedges lapsing with no value.

All remaining US Sale Proceeds will be subject to the prevailing Exchange Rate at the time of conversion unless additional hedging is undertaken.

### (d) Summary of estimated US Sales Proceeds

The estimated US Sales Proceeds equate to \$1.11 per Scheme Unit, based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00.<sup>44</sup>

		US\$m
<b>Gross Sale price</b>		1,710.0
Existing debt repaid/transferred		(1,024.3)
Other assets		26.0
Estimated net US Assets		711.6
<b>Sale Costs</b>		
Estimated transaction costs		(27.6)
Estimated debt and transfer costs and taxes		(28.3)
		(55.9)
Adjustments for estimated capital expenditure		(61.0)
<b>Estimated net US Sales Proceeds before earnings paid out (USD millions)</b>		<b>594.8</b>
US earnings to remain on the Australian balance sheet	Note 1	(20.2)
<b>Estimated net US Sales Proceeds (USD millions)</b>		<b>574.5</b>
<b>USD:AUD exchange rate including estimated impact of hedges</b>		<b>1.05</b>
<b>Estimated net US Sales Proceeds (A\$ millions)</b>		<b>549.7</b>
<b>Estimated net US Sales Proceeds (A\$ per unit)</b>		<b>1.11</b>

Note 1: This deduction of USD20.2 million relates to the earnings derived from CQO's US Assets as part of the 11 cents per CQO Unit distribution for the half year ended 31 December 2012. Of that 11 cents, 3.8 cents per CQO Unit (or \$18.75 million based on an exchange rate of USD1.08:AUD1.00 applied to an amount of USD20.2 million) represented earnings for the US Assets.

### (e) Sensitivity analysis for US Sales Distributions and Scheme Contingent Consideration

The amount that will be distributed to Unitholders as US Sales Distributions and paid to Unitholders as Scheme Contingent Consideration is based on a number of estimates and assumptions that are subject to business, economic, market, foreign exchange and taxation uncertainties and contingencies, many of which are beyond the control of CHOML and its directors and management.

The value of the estimated US Sales Distributions and Scheme Contingent Consideration, on a cents per CQO Unit basis, is sensitive to movements in a number of key variables, including:

- ◆ movements in the Exchange Rate;
- ◆ the value of US Sales Proceeds; and
- ◆ the amount of Holdback Liabilities and the amount of Costs.

44. In determining the US Sale Proceeds per CQO Unit, it is assumed that the conditions for closing are met for all of the US Assets, thereby achieving completion of the sale of all US Assets. Included in the USD575 million are estimates of movements in working capital, sale costs, debt transfer, taxation charges and debt termination costs. The actual amount of the estimates may vary. Because satisfaction of these assumptions is not within the control of CHOML, CHOML is not in a position to give, and does not give, any assurance as to the quantum and timing of receipt of US Sale Proceeds. The calculation of the Australian dollar value per CQO Unit of the US Sale Proceeds is based on an average exchange rate, including the estimated impact of hedging, of USD1.05:AUD1.00 amongst other things. The actual US Sale Proceeds distributed might vary.

## 4. Information about CQO

Set out below is a summary of the sensitivity of the US Sales Distributions and Scheme Contingent Consideration to changes in the above key variables.

The amount of USD10 million used in the sensitivity analysis is used for the purposes of illustration only and is not intended to be understood as an estimate of the possible variations in US Sale Proceeds or Holdback Liabilities.

Sensitivity	Change in estimated US Sales Distributions/ Scheme Contingent Consideration <i>(in cents per CQO unit)</i>
Increase in Exchange Rate by 1 cent <sup>45</sup>	(0.5)
Decrease in Exchange Rate by 1 cent <sup>46</sup>	0.5
Increase in US Sales Proceeds by USD10 million <sup>47</sup>	1.9
Decrease in US Sales Proceeds by USD10 million <sup>47</sup>	(1.9)
Increase in Holdback Liabilities or Costs by USD10 million <sup>48</sup>	(1.9)

The changes in the variables set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. Care should be taken in interpreting the sensitivities. The estimated impact of changes in each of the sensitivities has been calculated in isolation from changes in other variables. In practice, changes in variables may offset each other or may be cumulative.

With respect to the Exchange Rate, the rate as at 7 February 2012 was USD1.08:AUD1.00, however in the last six months the Exchange Rate has been as high as USD1.08:AUD1.00 and as low as USD0.94:AUD1.00.

### 4.4 Recent CQO Unit price performance

The closing price of CQO Units on ASX on 26 August 2011, the trading day prior to the announcement of the consortium's original proposal, was \$2.90. The 30 day volume weighted average price to 26 August 2011 was \$2.93.

During the 3 months ended 26 August 2011:

- ◆ the highest recorded daily closing price for CQO Units on ASX was \$3.68 on 20 June 2011; and
- ◆ the lowest recorded daily closing price for CQO Units on ASX was \$2.68 on 22 August 2011.

The closing price of CQO Units on ASX on 9 February 2012, the last day of trading prior to the date of this Explanatory Memorandum, was \$3.56.

45. Assumes that CHOML utilised the USD200 million of hedging maturing on 15 February 2012 at an exchange rate of USD1.02:AUD1.00. A lower Exchange Rate than USD1.02:AUD1.00 on 15 February 2012 could result in additional Australian dollar proceeds than shown in the sensitivity analysis. Note that movements in the Exchange Rate may be greater or less than 1 cent. To the extent they are greater than 1 cent, the impact on the size of US Sales Distributions and Scheme Contingent Consideration will be higher in direct proportion to the change.

46. See note 45.

47. Note that movements in the US Sale Proceeds and the Holdback Liabilities may be greater or less than USD10 million. To the extent they are greater than USD10 million, the impact on the size of US Sales Distributions and Scheme Contingent Consideration will be higher in direct proportion to the change.

48. See note 47.

#### 4.5 Unaudited balance sheet as at 31 December 2011

The unaudited summarised balance sheet as at 31 December 2011 shown below has been prepared on the basis of the accounting policies normally adopted by CHOML. It has been prepared to provide Unitholders with information on the assets and liabilities of CQO. The information is presented in an abbreviated form insofar as it does not include all of the disclosure required by applicable accounting standards.

	CQO Unaudited Balance Sheet \$ millions	Adjustments \$ millions	Pro-Forma Unaudited Australian balance sheet \$ millions
Summary	31 Dec 2011	31 Dec 2011	31 Dec 2011
Cash	99	(5)	93
Other Assets	60	(7)	52
Investment Properties - wholly owned	1,092		1,092
Investment in Joint Ventures	733		733
Assets - Classified as Held for Sale	794	(794)	0
<b>Total Assets</b>	<b>2,778</b>	<b>(807)</b>	<b>1,971</b>
Interest Bearing Liabilities	585	41	626
Other Liabilities	88	(19)	69
Liabilities - Classified as Held for Sale	297	(297)	0
<b>Total Liabilities</b>	<b>970</b>	<b>(275)</b>	<b>695</b>
<b>Net Assets</b>	<b>1,808</b>	<b>(532)</b>	<b>1,275</b>
CQO Units on Issue (m)			493.3
<b>Net Asset Per Unit (\$ per unit)</b>			<b>2.59</b>

The CQO unaudited balance sheet presents the whole operations of CQO as at 31 December 2011. The investment in joint ventures is the net value of the assets and liabilities of the Australian joint ventures, with the joint venture's investment properties being the material assets comprising this value. The "held for sale" assets and liabilities relate to the US Assets portfolio and associated operations. The following adjustments have then been made to modify the CQO unaudited balance sheet to represent the pro-forma unaudited Australian balance sheet as at 31 December 2011:

- ◆ assets and liabilities classified as held for sale were removed;
- ◆ approximately \$46 million of cash was received in the Australian balance sheet from US sales before 31 December 2011. \$41 million was used to temporarily repay Australian debt and the remainder held in cash. Both debt and cash have been adjusted to remove these US proceeds. Australian Cash was also reduced to reflect the interest expense savings from the Australian debt repayment.
- ◆ other assets reduced to remove the foreign exchange derivatives held that relate to repatriation of the US Sales Proceeds; and
- ◆ other liabilities decreased to reallocate part of the December half year distribution to the US operations as it related to US earnings paid out.

The Pro Forma Australian Unaudited NTA as at 31 December 2011 was, following the above adjustments, \$2.59.

Please refer to the CQO half year financial statements for further details on CQO's balance sheet as at 31 December 2011 and other financial disclosures in relation to CQO. CHOML expects to release these to ASX on or around 21 February 2012. A copy of these will be available on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo) on 21 February 2012.

## 4. Information about CQO

### 4.6 Material changes to the financial position of CQO since 30 June 2011

The latest published financial statements of CQO are the financial statements for the financial year ended 30 June 2011, which were released to ASX on 24 August 2011. A copy is available free of charge on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo).

To the knowledge of CHOML's directors and except as disclosed elsewhere in this Explanatory Memorandum, the financial position of CQO has not materially changed since 30 June 2011, except that:

- ◆ on 19 July 2011, CHOML announced the sale of NCR House in North Sydney for \$57.3 million, in line with its June 2011 book value;
- ◆ on 3 August 2011, CHOML announced it had executed binding contracts to sell 100% of its interests in its United States portfolio for a gross price of USD1.71 billion to entities affiliated with Beacon Capital Partners, LLC, subject to customary closing conditions. The gross sale price was in line with the 30 June 2011 independent valuations of the US Assets;
- ◆ on 18 August 2011, CHOML sold its investment in the Atrium Charlottenburg, Berlin to its lender in respect of that property. No equity was realised in the sale;
- ◆ on 15 September 2011, CHOML announced it had refinanced its \$365 million Australian Commercial Mortgage Backed Security (CMBS) facility with its \$290 million 'back stop facility', proceeds from asset sales and working capital;
- ◆ on 16 December 2011, CHOML announced a distribution of 11.0 cents per unit, which included 7.2 cents per unit from CHOML's Australian operations and 3.8 cents per unit from CHOML's US operations; and
- ◆ on 3 January 2012, CHOML announced asset revaluations for CQO's Australian portfolio as at 31 December 2011. All 17 of CHOML's Australian operating assets were externally valued on 31 December 2011 representing 100% of the Australian portfolio, other than 171 Collins Street, Melbourne, which is valued at cost.

December 2011 Valuation Summary	Australia
Dec 11 valuation \$m	1,848
Jun 11 valuation \$m	1,843 <sup>49</sup>
Aggregate movement in value \$m	5
Variance over June 2011 value	0.27%
Average cap rates – Dec 2011	7.79%
Average cap rates – June 2011	7.84%

All of the above changes are reflected in the unaudited balance sheet contained in section 4.5.

The financial statements for the half year ended 31 December 2011 are expected to reflect the reclassification of \$26 million of foreign currency translation losses from the foreign currency translation reserve to accumulated losses in the year ended 30 June 2011, when CQO disposed of its investment in Japan. This reclassification has no impact on the total comprehensive income or profit from continuing activities for the financial year ended 30 June 2011, nor would it impact the net assets as at 30 June 2011. The loss from discontinued operations would increase by \$26 million, reducing the profit and loss for the year ended 30 June 2011 by \$26 million; however this will be offset by the transfer of cumulative foreign exchange gains/losses on disposal of assets held for sale to have no impact on the total comprehensive income for the year ended 30 June 2011.

As at the date of this Explanatory Memorandum, CHOML intends to release additional financial information for the half year ended 31 December 2011 in advance of the Meeting on or about 21 February 2012. A copy will be available on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo) on 21 February 2012. At this stage, CHOML considers that it is unlikely that this information would have any material impact on the making of a decision by Unitholders in relation to the Proposal, and it will be substantially consistent with the changes in financial position since 30 June 2011, referred to above.

49. This excludes the sale of NCR House in North Sydney, announced on 19 July 2011.





CITICENTRE, 2 PARK STREET, SYDNEY, NSW



## 5. Information about the Bidders

This section of the Explanatory Memorandum is Bidder Information and CHOML does not assume responsibility for it.

### 5.1 The Bidders

Under the Proposal, the Bidders, acting directly or through their respective Nominees, will acquire 100% of the CQO Units on issue as at the Record Date (other than those CQO Units held by the Excluded Unitholders at that date). Upon implementation of the Proposal, the Consortium will hold 100% of CQO Units in the following percentages:

- ◆ PSP: 42.5%;
- ◆ Reco: 42.5%;
- ◆ CHPT: approximately 4.99%; and
- ◆ CHCIT: approximately 10.01%.

### 5.2 Interest of the Bidders in CQO

The Consortium Members, together with their Associates, currently have a relevant interest (as defined under the Corporations Act) in 14.64% of CQO Units on issue.<sup>50</sup>

CQO is currently managed by Charter Hall Group (Charter Hall Office Management Limited (**CHOML**), a wholly owned subsidiary of Charter Hall Limited, is the responsible entity of CQO). CHOML is responsible for the overall activities and strategy of CQO, as well as coordinating operations and managing investments. CHOML is also responsible for:

- ◆ capital management;
- ◆ financial risks management;
- ◆ investor relations and compliance; and
- ◆ accounting, treasury, tax management and reporting.

Asset management services are provided by Charter Hall Holdings Pty Ltd (**CHH**) and Charter Hall Asset Services Limited (**CHASL**) (also wholly owned subsidiaries of Charter Hall Limited) in Australia and affiliates overseas.

The services provided to CQO by CHOML, CHH and CHASL include developing and executing business plans for each property, including strategies for leasing, capital expenditure, holding or selling assets, refurbishment, rental growth, maintenance and management contracts.

Other services provided to CQO by CHASL and CHH include:

- ◆ development management;
- ◆ leasing services;
- ◆ engineering expertise to oversee tenancy fitouts, capital expenditure, refurbishment and development activity;
- ◆ due diligence services; and
- ◆ environmental sustainability and regulatory compliance of properties.

CHOML and CHASL receive fees on arm's length terms for providing these services.

### 5.3 Background to the Bidders

#### (a) CHPT

CHPT, together with Charter Hall Limited, comprise Charter Hall Group (ASX:CHC), a stapled entity listed on the Australian Securities Exchange.

Charter Hall Group is an Australian fully integrated property group, with 20 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall Group has over \$10 billion<sup>51</sup> of funds under management across the office, retail, industrial and residential sectors.

Please visit <http://www.charterhall.com.au/> for further information about Charter Hall Group.

A wholly owned sub-trust of CHPT, CHCIT, holds approximately 10.01% of the units in CQO.

CHOML, a wholly owned subsidiary of Charter Hall Limited, is the responsible entity of CQO.

50. Comprising:

(a) 49,372,206 CQO Units (10.01%) held by CHCIT;  
(b) 1,295,000 CQO Units (0.26%) held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund;  
(c) 16,331,915 CQO Units (3.3%) held by Fir Tree Value Master Fund, L.P. and Fir Tree REOF II Master Fund LLC, which are subject to a Unit Transfer Agreement in favour of CHCIT (as disclosed to ASX on 21 June 2011 and 5 December 2012) (please note that Fir Tree Value Master Fund, L.P. and Fir Tree REOF II Master Fund LLC are not Associates of the Bidders); and  
(d) 5,218,676 CQO Units (1.06%) held by PSP.

51. As at 30 June 2011.

## **(b) PSP**

PSP is a pension investment manager established in Canada, which invests funds for various Canadian pension plans. PSP manages a diversified global portfolio including stocks, bonds and other fixed-income securities, and investments in private equity, real estate, infrastructure and renewable resources, with over C\$58 billion of assets under management as at 31 March 2011.

PSP was incorporated as a Crown Corporation under the Public Sector Pension Investment Board Act (Canada) in 1999. It operates at arm's length from the Government of Canada.

Please visit <http://www.investpsp.ca/en/> for further information about PSP.

## **(c) Reco**

Reco (and Reco Oak Pte Ltd, which will also be a unitholder in the Reco Trust, see below) are companies incorporated in Singapore, and are 100% wholly-owned subsidiaries of Recosia Pte Ltd, also a company incorporated in Singapore. Recosia Pte Ltd is a wholly-owned subsidiary of the Government of Singapore Investment Corporation (Realty) Pte Ltd (**GICR**), which is itself wholly owned by the Minister for Finance of the Government of Singapore. The term "Minister for Finance" refers to the body corporate established by statute to own and administer assets of the Government of Singapore. Reco intends to hold the Scheme Units acquired under the Proposal through a unit trust (**Reco Trust**), all the units of which are to be held by Reco and Reco Oak Pte Ltd. Reco expects the trust to be established shortly.

GICR holds real estate investments made on behalf of the Government of Singapore.

## **5.4 The Consortium Structure**

The relationship between the Consortium Members is currently governed by a consortium agreement between PSP, Reco, CHCIT, CHPT and Charter Hall Limited entered into on 5 December 2011 (as amended).

Following implementation of the Proposal, CHOML is contemplated to remain the trustee of CQO and Charter Hall Holdings Pty Limited (a wholly owned subsidiary of Charter Hall Group) is contemplated to manage CQO, with responsibility for day to day decisions.

As discussed above, upon implementation of the Proposal, 100% of CQO Units will be held in the following proportions: PSP (42.5%); Reco (42.5%); CHCIT (10.01%); and CHPT (4.99%). Upon implementation of the Proposal, these parties will enter into a unitholders agreement which sets out their agreements in relation to the management and operation of CQO following implementation.

It is proposed that, upon implementation of the Proposal, CQO will enter into an investment management agreement with Charter Hall Holdings Pty Limited under which that entity will manage CQO following implementation, and will receive fees for providing investment management services. Subsidiaries of Charter Hall Group will also be engaged to provide asset-level services, including property management and development management services, in relation to CQO. Under these arrangements, personnel involved in the management of CQO will be employed by the manager or a related entity of the manager. No personnel will be employed directly by CQO.

## **5.5 Funding of the Proposal**

The amount payable under the Proposal is approximately \$1,138 million, to be funded as follows:

- ◆ equity of approximately \$847 million, which will be contributed by PSP, Reco and CHPT (in their respective Specified Acquisition Proportions to the extent of the Scheme Cash Consideration, with the amounts to be paid into the Escrow Account to be funded by the Bidders in their respective Specified Holding Proportions). Each of these parties has sufficient cash available from its internal or parent cash resources to fund its share of the equity contribution; and
- ◆ in relation to the approximately \$292 million required to fund the Implementation Distributions (to the extent not funded out of the US Sale Proceeds), this amount will be funded as follows:
  - partially funded from CQO available cash; and
  - the balance will be funded out of debt to be drawn down under a new \$1,000 million syndicated loan facility to be made available to CQO by a syndicate of lenders on implementation of the Proposal. That facility will also be used to refinance CQO's existing debt. A binding commitment letter has been entered into between Charter Hall Limited, PSP and Reco (for these purposes, the Consortium and each of them a Consortium Member) and Westpac Banking Corporation and Commonwealth Bank of Australia (the Lenders) in relation to this facility.

As discussed in section 3.2(c), the Scheme Contingent Consideration will be paid out of the Escrow Account.

## 5. Information about the Bidders

The debt funding referred to above is subject to final documentation and may be terminated in the following circumstances:

- ◆ by the Lenders if:
  - a Consortium Member breaches any of its obligations under the debt commitment letter or related term sheet and that breach is not remedied within 7 days of the earlier of (i) the Consortium Member becoming aware of the breach; and (ii) a notice from the Lenders to remedy that breach;
  - a Consortium Member breaches any of the representations and warranties made by it in connection with the Proposal;
  - the facility agreement is not signed by 28 February 2012 or any later date agreed between each Consortium Member and each of the Lenders;
  - a CQO Material Adverse Change occurs;
  - the Scheme Implementation Agreement is terminated;
  - any of the bid conditions (or such of the bid conditions agreed by the Lenders to be material bid conditions) in the Scheme Implementation Agreement are waived, released or amended without the written approval of the Lenders; or
  - the Consortium (or any of their affiliates) notifies the Lenders that they do not intend proceeding with the Proposal; and
- ◆ by the Consortium if:
  - a Lender breaches any of its obligations under the debt commitment letter and related term sheet and that breach is not remedied within 7 days of receipt of a notice from the Consortium to remedy that breach;
  - the Scheme Implementation Agreement is terminated; or
  - the facility agreement is not signed by 30 June 2012.

No Bidder is aware of any reason to believe that any of these termination rights, in so far as they relate to itself or Lenders, will be triggered.

Draw down under the facility agreement will be subject to standard conditions precedent for a facility of this nature, including:

- ◆ that financial close must occur by 31 May 2012;
- ◆ satisfaction of all conditions precedent to the Scheme Implementation Agreement;
- ◆ no subsisting event of default, potential event or review event; and
- ◆ satisfaction of other conditions which are procedural in nature and customary for facilities of this nature.

Following the Scheme becoming Effective, the majority of the conditions precedent to draw down under the facility agreement will be in the control of the Bidders and CHOML. For those conditions precedent which are not within the control of the Bidders or CHOML, no Bidder is aware of any reason to believe that any of these conditions precedent will not be satisfied.

### 5.6 Liabilities of the Bidders

Obligations imposed on or liabilities of:

- “the Bidders” (rather than on or of an individual Bidder) under the Scheme Implementation Agreement are obligations or liabilities, as the case may be, of the Bidders severally in their Specified Acquisition Proportions, except where the relevant obligation, or liability, as the case may be, is expressly stated to be of the Bidders in their Specified Holding Proportions; and
- an individual Bidder under the Scheme Implementation Agreement or the Bidder Deed Poll is an obligation or liability, as the case may be, of that Bidder alone.

In particular, where a Bidder fails to comply with its obligations to fund its Specified Acquisition Proportion of the Scheme Cash Consideration and its Specified Holding Proportion of the Holdback Amount to be paid into the Escrow Account (a **Defaulting Bidder**):

- CHOML’s rights will be against the Defaulting Bidder; and
- if the Defaulting Bidder’s failure to comply has not been cured within 5 Business Days after the Defaulting Bidder first failed to comply with such obligations, CHOML and the Escrow Agent must refund to each Bidder other than the Defaulting Bidder the funds it has paid in compliance with such obligations together with interest on those funds (less bank fees and other charges).

## 5.7 The Consortium's intentions for CQO

The intentions set out in this section are statements of current intention only and are based on facts and circumstances that are known to the Consortium as at the date of preparing this Explanatory Memorandum. Final decisions will only be made by the Consortium after a detailed review of CQO has been conducted. Accordingly, the intentions set out in this section may change as new information becomes available or circumstances change.

If the Proposal is implemented, the Consortium will hold all of the Units in CQO. In particular, the Consortium intends to:

- ◆ amend the CQO Constitution with effect from the Implementation Date, deregister CQO as a managed investment scheme under the Corporations Act, and have CQO removed from the official list of the ASX and renamed Charter Hall Office Trust;
- ◆ continue to operate CQO as a trust investing in Australian office property;
- ◆ retain CHOML as the trustee of CQO and appoint Charter Hall Holdings Pty Limited to manage CQO. As is currently the case, no personnel will be employed directly by CQO. Instead, CQO will enter into service agreements with Charter Hall Holdings Pty Limited, under which asset management, property management, development management, project management and other services will be provided to CQO;
- ◆ establish an investment committee that will be responsible for the review, endorsement or approval of key investment decisions and related party matters;
- ◆ maximise the value of CQO by developing and executing business plans for each property, including strategies for leasing, capital expenditure, holding or selling assets, refurbishment, rental growth, maintenance and management contracts; and
- ◆ refinance CQO's existing debt facilities using a new \$1 billion syndicated loan facility.

## 5.8 Bidders' interests in CQO Units

During the four months prior to the date of this Explanatory Memorandum, neither the Bidders nor any of their associates provided, or agreed to provide, consideration for any CQO Unit under a purchase or agreement, other than under the Proposal.

## 5.9 Benefits to holders of CQO Units

During the four months prior to the date of this Explanatory Memorandum, neither the Bidders nor any of their associates gave or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate to

- ◆ vote in favour of the Proposal; or
- ◆ dispose of CQO Units,

and where the benefit was not offered to all Unitholders.

## 6. Taxation implications for Unitholders

### Greenwoods & Freehills

The Directors  
Charter Hall Office Management Limited  
as responsible entity of the Charter Hall  
Office REIT  
GPO BOX 2704  
Sydney NSW 2001

8 February 2012

Dear Directors

#### Australian taxation summary

This section is a general summary of the Australian tax implications arising for Unitholders as a result of the Scheme (**Scheme Unitholders**).

The tax consequences of participating in the Scheme will vary depending on your circumstances and the jurisdiction in which you are located. It is important that you consult with your professional tax advisor regarding your particular circumstances.

This summary is based on the provisions of the Tax Act and ATO practice applicable as at 6 February 2012. Further, the summary has been prepared on the basis that an "earnout right" has arisen. The rules regarding earnout rights are currently subject to review and legislative changes are anticipated. Due to the lack of guidance available at the present time, we recommend that Scheme Unitholders exercise care to ensure that any legislative changes do not affect the outcomes discussed below.

This summary does not address the consequences that arise if you hold your Units on revenue account, as trading stock, or the Taxation of Financial Arrangement provisions apply in respect of your Units.

This summary does not address the tax consequences of participating in the Scheme for non-residents of Australia under the laws of other jurisdictions. Non-resident Scheme Unitholders should obtain tax advice specific to their jurisdiction before participating in the Scheme.

#### 1 Payments to Scheme Unitholders

---

Under the terms of Scheme, Scheme Unitholders will receive (or have the right to receive) approximately \$3.60 per Unit. Different amounts will be paid by CHOML and the Bidders (directly and via the Escrow Agent). The payments consist of the following amounts:

- Scheme Cash Consideration \$1.84 per Scheme Unit paid by the Bidders;
- Implementation Distributions \$0.65 per Scheme Unit paid by CHOML;
- US Sales Distributions estimated at \$0.96 per CQO Unit paid by CHOML prior to the Implementation Date; and
- Scheme Contingent Consideration estimated at \$0.15 per Scheme Unit paid by the Escrow Agent on behalf of the Bidders not earlier than 6 months after the Implementation Date.

MLC Centre Martin Place Sydney NSW 2000 Australia  
GPO Box 4982 Sydney NSW 2001 Australia  
Greenwoods & Freehills Pty Limited ABN 60 003 146 852

Telephone +61 2 9225 5955 Facsimile +61 2 9221 6516  
www.gf.com.au DX 482 Sydney



The tax treatment and consequences of each of these amounts is discussed below.

## **2 Distributions by CQO**

---

### **2.1 Distributions to Australian resident Scheme Unitholders**

Distributions by CQO to an Australian resident Scheme Unitholder, including the half year distribution, Implementation Distributions and the US Sales Distributions, will, to the extent that they include taxable components, be required to be included in the assessable income of the Scheme Unitholder for the income year to which the payment relates. In the present circumstances this will be the year ending 30 June 2012.

However, a distribution will not be included in a Scheme Unitholder's assessable income to the extent that it represents 'tax deferred' income or exempt income. A distribution of tax deferred income will affect the Scheme Unitholder's cost base of the Units as described at section 3.1(a) below.

Tax deferred distribution represents the amount by which the net income of CQO for tax purposes is less than the amount distributed to the Scheme Unitholders. This may occur for example where:

- distributions received by CQO from its investments are not included in CQO's net income for tax purposes; or
- CQO has prior year losses which shelter current year income; or
- the distribution represents a return of capital.

The character of each component of income distributed by CQO (e.g. foreign source dividend income) will be retained when distributed by CQO to Scheme Unitholders. The details regarding the components of the Implementation and US Sales Distributions will be included in the 2012 annual tax statement that will be provided to each Scheme Unitholder after the Implementation Date.

The rate of tax applied to the Scheme Unitholder will depend on their particular tax profile.

### **2.2 Distributions to non-resident Scheme Unitholders**

CQO is and expects to continue to be a managed investment trust (**MIT**) for tax purposes. CHOML will be liable to deduct withholding tax on your behalf in respect of the fund payment component of a distribution paid to you. This withholding tax does not always represent the final tax liability in respect of such distributions and in some circumstances you may have additional tax filing and tax payment obligations.

In respect of CQO, the fund payment component of a distribution is likely to include amounts representing:

- Australian source income, such as rental income from properties; and
- capital gains in respect of taxable Australian property, grossed up for any CGT discount that has been applied at any sub-trust level (i.e. withholding tax is imposed on the gross capital gain).

Taxable Australian property includes real property situated in Australia.

The withholding rate depends on whether you are a resident of a country with which Australia has determined to be an "exchange of information country". If you are a resident of such a country the rate of withholding will be 7.5%, for other non-residents that rate of withholding will be 30%.

The fund payment component will not include amounts attributable to trust income comprising:

## 6. Taxation implications for Unitholders

### Greenwoods & Freehills

- interest, royalties or dividends (however, distributions attributable to such trust income may be subject to withholding tax – see below);
- capital gains in respect of CGT assets that are not taxable Australian property; and
- tax deferred distributions.

In respect of any the interest, dividend and royalty components of distributions, CHOML will also be required to deduct withholding tax from any amounts distributed to you. CHOML have advised that the distributions will not include any components attributable to royalties or dividends, but there may be components referable to interest.

To the extent that there are components attributable to interests, that income will be subject to a withholding tax rate of 10%. The interest withholding tax represent a final tax liability for non-resident Scheme Unitholders for these amounts (i.e. there is no further tax on an assessment basis in respect of these amounts).

### 2.3 Foreign income tax offsets

Australian resident Scheme Unitholders may be entitled to a foreign income tax offset (FITO) in respect of foreign taxes incurred by CQO on income that is distributed to them. The amount of the FITO will be included in the Scheme Unitholder's assessable income in addition to the distributed foreign income to which it relates.

Subject to certain limitations, the FITO may then be applied to reduce the Australian income tax payable by the Scheme Unitholder. To the extent that the FITO cannot be used by a Scheme Unitholder, it cannot be carried forward to a future income year.

## 3 Disposal of Units

---

### 3.1 Australian resident Scheme Unitholders

#### (a) Cost base

A Unit constitutes an asset for CGT purposes. A Scheme Unitholder's cost base in a Unit will include the amount paid by the Scheme Unitholder to acquire the Unit, plus any capital costs connected with the acquisition and/or disposal of the Unit.

A Scheme Unitholder's cost base will be reduced to the extent that the Scheme Unitholder has received a distribution from CQO (including the Implementation Distributions and the US Sales Distributions) that is tax deferred income. Tax deferred income will include any distributions not included in the Scheme Unitholder's assessable income, other than where the non-assessable amount:

- is attributable to a discounted capital gain made by CQO; or
- is exempt income.

If the aggregate of such tax deferred income exceeds the Scheme Unitholder's cost base in the Units, the Scheme Unitholder will make a capital gain equal to that excess.

#### (b) Capital gain or loss

The disposal of the Units to the Bidders will be a CGT event. The time of the CGT event will be the Implementation Date.

A Scheme Unitholder will:

- make a capital gain if the capital proceeds (refer section 3.1(c) below) is greater than the cost base of the Units; and

- make a capital loss if the capital proceeds are less than the reduced cost base of the Units.

(c) Capital proceeds

For the purposes of calculating your gain or loss, the capital proceeds for the Scheme Unitholders are calculated as follows:

- **Scheme Cash Consideration \$1.84 per Scheme Unit** – this amount is received from the Bidders in compensation for the disposal of the Units and will form part of the capital proceeds from the sale.
- **Implementation Distributions (taxable component only)** – to the extent that these distributions represent tax deferred amounts, they will not form part of capital proceeds. However to the extent that they represent assessable distributions, the principles in Taxation Ruling TR 2010/4 should apply to include the taxable amount in the capital proceeds. Refer section 3.1(d) below in relation to adjustments made to any capital gain attributable to these proceeds.
- **Scheme Contingent Consideration estimated at \$0.15 per Scheme Unit** – Under current law, the Scheme Contingent Consideration is deemed to be a separate “earnout right” for CGT purposes. Subsequently, the capital proceeds from the sale of the Units will include market value of the earnout right.

The right commences to be owned at the Implementation Date and a CGT event will occur in relation to the right when satisfied by the payment of the Scheme Contingent Consideration on behalf of the Bidders, or alternatively upon expiry of the right without any amounts becoming payable.

The cost base for the purposes of working out any future capital gain or loss on disposal of the earnout right is equal to the market value of the right included in capital proceeds. We understand that CQO will obtain a valuation of the earnout right as at the Implementation Date and publish this valuation on its website.

The CGT discount should be available to the Scheme Unitholder in the circumstances that the right has been held for greater than 12 months and the Scheme Unitholder is eligible to apply the discount (refer section 3.1(f) below).

Any capital loss arising from the earnout right will not be able to be carried back to offset any capital gain in respect of the disposal of the Units.

(1) Proposed legislative amendments to earnout arrangements

On 12 May 2010, the Assistant Treasurer announced proposed amendments to the taxation treatment of earnout arrangements. These proposed amendments included the so called ‘cost recovery method’.

Under the proposed cost recovery method, the Scheme Contingent Consideration actually received will be included in the capital proceeds related to the disposal of Units as opposed to giving rise to a separate right.

The recognition of capital proceeds will be spread over the period of receipt. A Scheme Unitholder will be required to reduce the cost base of the Units as and when amounts they are due to receive become certain. After the cost base is reduced to zero, the seller realises a capital gain on all further amounts received in the year of receipt.

## 6. Taxation implications for Unitholders

### Greenwoods & Freehills

Scheme Unitholders will be able to apply the CGT discount (if eligible) to any future capital gain resulting from the Scheme Contingent Considerations amount if they would have been entitled to the CGT discount in respect of the disposal of the Units.

If the Scheme Unitholder has an overall loss amount, they will not be able to claim the loss until the rights end (i.e. any amount is received or the right expires).

Based on the ATO's current administrative practice in relation to earnout arrangements, Scheme Unitholders have the choice of adopting either the current law or proposed law in relation to the earnout arrangement.

If the Scheme Unitholder chooses to apply the proposed law method and it is enacted, no further action is required. However, if the proposed law is not enacted, taxpayers will need to review their positions and seek amendments accordingly. Similarly if the Scheme Unitholder chooses to apply the current law and the amending law is enacted (and is applicable to the affected income years), they will need to review their positions and seek amendments accordingly.

Refer to the illustrative examples at section 4 regarding the application of the current and proposed changes for Scheme Unitholders.

(d) Anti-overlap provisions

Where a Scheme Unitholder makes a capital gain from the disposal of their Units, the anti-overlap provisions will reduce that capital gain to the extent that the Implementation Distributions constitute assessable income.

However, where a Scheme Unitholder makes a capital loss, the taxable component of any Implementation Distribution will not serve to increase the capital loss. That is, the amount will be both included in assessable income and reduce the capital loss available.

(e) Net capital gain/loss

Capital gains and capital losses are aggregated to determine the net capital gain or loss for the income year.

The net capital gain amount (after any application of the CGT discount, refer section 3.1(f) below) is included in assessable income and subject to income tax at the Scheme Unitholder's applicable tax rate.

Scheme Unitholders may carry forward net capital losses to offset capital gains made in the future income years. Capital losses are applied against capital gains before the application of the CGT discount. Capital losses may not be used to offset other assessable income. The ability of a Scheme Unitholder that is a company to utilise capital losses may be subject to certain loss utilisation provisions being satisfied.

(f) CGT discount concession

The taxable amount of any assessable capital gain may be reduced if the CGT discount is available to the Scheme Unitholder. Generally, the CGT discount is available to a Scheme Unitholder in the instance that the Units have been held for a period of at least 12 months prior to disposal, excluding the days of acquisition and disposal. If this concession is available, then the amount of the Scheme Unitholders capital gain (after application of capital losses) is reduced by the relevant CGT discount (i.e. 50% for individuals / trusts and 33.33% for complying superannuation funds). Scheme Unitholders that are companies are not eligible for the discount.

### 3.2 Non-resident Scheme Unitholders

Any capital gain or loss that is made by a non-resident Scheme Unitholder on the disposal of Units should be disregarded if:

- the non-resident Scheme Unitholder (together with their associates) did not hold 10% or more of the Units in CQO at the time of disposal or at any time throughout a 12 month period that began no earlier than 24 months before the disposal of Units in CQO and ending no later than that time; and
- the non-resident Scheme Unitholder did not hold their Units in CQO at any time in carrying on a business at or through a permanent establishment in Australia.

Non-resident Scheme Unitholders that do not satisfy these conditions should seek their own advice as to the Australian income tax consequences from the disposal of the Units.

## 4 Examples

---

We have provided the following illustrative example to assist you in determining your income tax consequences. The examples are based on the following assumptions:

- The cost base for the sample Unitholder, after any adjustments arising from the half year distributions, is either \$2.00 or \$4.00 per Unit;
- The US Sales Distribution received prior to the Implementation Date (\$0.96) is 100% tax deferred;
- Scheme Contingent Consideration has an estimated market value of \$0.12 as at Implementation Date;
- Scheme Unitholders will receive consideration of an estimated \$0.15 in the 2013 income year in respect of the earnout right (the Scheme Contingent Consideration – rather than the estimated \$0.12;
- The entire amount of the Implementation Distributions of \$0.65 are 100% tax deferred.
- Scheme Cash Consideration is \$1.84.



## 6. Taxation implications for Unitholders

### Greenwoods & Freehills

#### 4.1 Current Law

(a) Scenario One: Cost base \$2.00 (Overall capital gain)

Year	CGT Asset	Cost Base (A)	Capital proceeds (B)	Capital gain / (loss) (excluding CGT discount) (C) = (B) – (A)	Explanation
2012 (distributions)	Units	\$1.04 = \$2.00 – \$0.96	-	-	The cost base is reduced by the tax deferred component of the US Sales Distribution.
2012 (distributions)	Units	\$0.39 = \$1.04 – \$0.65	-	-	The cost base is reduced by the tax deferred component of the Implementation Distribution.
2012 (disposal)	Units	\$0.39	\$1.96 = \$1.84 + \$0.12	\$1.57	A capital gain arises as the capital proceeds (including the market value of the earnout right) are greater than the Units cost base.
2013	Earnout right	\$0.12	\$0.15	\$0.03	For the purposes of working out any capital gain, the cost base of the earnout right is equal to market value included in capital proceeds above (i.e. \$0.12).
<b>Total</b>		\$0.51	\$2.11	\$1.60	

(b) Scenario One: Cost base \$4.00 (Overall capital loss)

Year	CGT Asset	Cost Base (A)	Capital proceeds (B)	Capital gain / (loss) (excluding CGT discount) (C) = (B) – (A)	Explanation
2012 (distributions)	Units	\$3.04 = \$4.00 – \$0.96	-	-	The cost base is reduced by the tax deferred component of the US Sales Distribution.
2012 (distributions)	Units	\$2.39 = \$3.04 – \$0.65	-	-	The cost base is reduced by the tax deferred component of the Implementation Distribution.
2012 (disposal)	Units	\$2.39	\$1.96 = \$1.84 + \$0.12	(\$0.43)	A capital loss arises as the capital proceeds (including the market value of the earnout right) are less than the Unit's reduced cost base.
2013	Earnout right	\$0.12	\$0.15	\$0.03	For the purposes of working out any capital gain, the cost base of the earnout right is equal to market value included in capital proceeds above (i.e. \$0.12).
<b>Total</b>		\$2.51	\$2.11	(\$0.40)	

## 6. Taxation implications for Unitholders

### Greenwoods & Freehills

#### 4.2 Proposed Law

(a) Scenario Two: Cost base \$2.00 (Overall capital gain)

Year	CGT Asset	Cost Base (A)	Capital proceeds (B)	Capital gain / (loss) (excluding CGT discount) (C) = (B) – (A)	Explanation
2012 (distributions)	Units	\$1.04 = \$2.00 – \$0.96	-	-	The cost base is reduced by the tax deferred component of the US Sales Distribution.
2012 (distributions)	Units	\$0.39 = \$1.04 – \$0.65	-	-	The cost base is reduced by the tax deferred component of the Implementation Distribution.
2012 (disposal)	Units	\$0.39	\$1.84	\$1.45	A capital gain arises as the capital proceeds (the Scheme Cash Consideration) is greater than the assets cost base.
2013	Units	\$0.00	\$0.15	\$0.15	For the purposes of working out any capital gain, all proceeds are considered to be related to the disposal of units. Therefore, if a capital gain arose in the 2012 income year upon disposal of the Units, the cost base of the units will be nil.
<b>Total</b>		\$0.39	\$1.99	\$1.60	

## Greenwoods & Freehills

### (b) Scenario Two: Cost Base \$4.00 (Overall gain loss)

Year	CGT Asset	Cost Base (A)	Capital proceeds (B)	Capital gain / (loss) (excluding CGT discount) (C) = (B) – (A)	Explanation
2012 (distributions)	Units	\$3.04 = \$4.00 – \$0.96	-	-	The cost base is reduced by the tax deferred component of the US Sales Distribution.
2012 (distributions)	Units	\$2.39 = \$3.04 – \$0.65	-	-	The cost base is reduced by the tax deferred component of the Implementation Distribution.
2012 (disposal)	Units	\$0.55 = \$2.39 – \$1.84	-	-	No capital loss arises as all the rights to Scheme Contingent Consideration have not yet ended.
2013	Units	\$0.55	\$0.15	(\$0.40)	For the purposes of working out any capital loss, all proceeds are considered to be related to the disposal of units. Therefore, a capital right will only arise upon receipt of the Scheme Contingent Consideration.
<b>Total</b>		\$0.55	\$0.15	(\$0.40)	

## 5 GST

No GST is payable in respect of the disposal of Units or in respect of distributions paid by CQO.

## 6 Stamp Duty

Scheme Unitholders should not have any stamp duty liability in respect of their disposal to the Bidders or in respect of distributions paid by CQO.

\* \* \* \* \*

Yours sincerely

**Greenwoods & Freehills Pty Limited**

## 7. Additional information

### 7.1 Warranty by Scheme Unitholders about their Scheme Units

Under the Proposal, each Scheme Unitholder (including those who did not vote or who voted against the Proposal) will be deemed by the constitutional amendments effected by the Supplemental Deed to have warranted to CHOML in its own right and on behalf of the Bidders that all their Scheme Units (including any rights, entitlements and obligations attaching to those Scheme Units) which are transferred to the Bidders will, at the time of the transfer of them to the Bidders, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind not referred to in the CQO Constitution, and that they have full power and capacity to sell and to transfer their Scheme Units to the Bidders pursuant to the Proposal. If this warranty is breached, Scheme Unitholders may be liable to pay to the Bidders any amounts the Bidders pay to acquire clear title to the Scheme Units.

In addition, the Supplemental Deed provides that to the maximum extent permitted by law, the Scheme Units transferred to the Bidders will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.

### 7.2 Termination rights

The Scheme Implementation Agreement contains the termination rights described in the table below, exercisable on written notice to the other parties to the agreement.

Circumstances
<b>Any of CHOML and the Bidders can terminate if:</b>
<b>Failure of condition:</b> Any of CHOML and the Bidders can terminate if: <ul style="list-style-type: none"><li>◆ a condition which that person has the benefit of has not been satisfied or, if applicable, waived by the requisite time; and</li><li>◆ the parties have not been able to:<ul style="list-style-type: none"><li>- agree an extension of time for satisfaction of the condition (or an extension of the End Date); or</li><li>- determine an alternative way to effect the Proposal following 5 Business Days of good faith consultations.</li></ul></li></ul> <p>For example, any party may terminate the Scheme Implementation Agreement if Unitholders do not approve the Proposal. CHOML may also terminate the Scheme Implementation Agreement if the Independent Expert changes its conclusion that the Proposal is in the best interests of Scheme Unitholders.</p>
<b>End Date:</b> the Proposal has not become Effective before the End Date, and the parties have not been able to determine an alternative way to effect the Proposal following 5 Business Days of good faith consultations.
<b>CHOML can terminate if:</b>
<b>Material breach:</b> a Bidder commits a material breach of any clause of the Scheme Implementation Agreement, including breach of a Bidder Warranty, if the breach has not been remedied within 5 Business Days after CHOML has given notice of the breach to the Bidders and the Escrow Agent.
<b>Change of recommendation:</b> a majority of the members of the Independent Directors Committee withdraw their recommendation or change their vote including in each case as a result of a Superior Proposal.
<b>A Bidder can terminate if:</b>
<b>Material breach:</b> CHOML commits a material breach of any clause of the Scheme Implementation Agreement, including breach of a CHOML Warranty, if the breach has not been remedied within 5 Business Days after the Bidders have given notice of the breach to CHOML and the Escrow Agent.
<b>Change of recommendation:</b> any member of the Independent Directors Committee makes a public statement withdrawing or adversely changing: <ul style="list-style-type: none"><li>◆ his recommendation that Unitholders vote in favour of the Scheme Resolutions; or</li><li>◆ his intention to cause any CQO Units in which he has a relevant interest to be voted in favour of the Scheme Resolutions.</li></ul>
<b>Competing Transaction:</b> any member of the Independent Directors Committee recommends a Competing Transaction.
<b>Failure to recommend Bidders' Increased Offer:</b> any member of the Independent Directors Committee fails to make a public statement in support of the Bidders' Increased Offer where, in the context of an offer in relation to a Competing Transaction, the Bidders have made an Increased Offer that the Independent Directors Committee has determined would be at least as favourable to Unitholders as the Competing Transaction.



## 7.3 Exclusivity and break fee provisions

### (a) Exclusivity

The Scheme Implementation Agreement contains exclusivity provisions. These provisions prohibit (subject to the exceptions described below) CHOML (and its Representatives), during the term of the Scheme Implementation Agreement, from:

- ◆ directly or indirectly soliciting, inviting, encouraging or initiating any enquiries, negotiations or discussions with a view to obtaining any expression of interest, offer or proposal in relation to a Competing Transaction or communicating any intention to do so;
- ◆ entering into, continuing or participating in negotiations or discussions regarding a Competing Transaction; or
- ◆ soliciting, inviting, facilitating or encouraging, any Third Party to undertake a due diligence investigation on CQO or any of its Related Bodies Corporate, or making any non-public information about CQO or any of its Related Bodies Corporate available to a Third Party,

and CHOML must immediately provide details to each Bidder if it is approached to engage in any activity in contravention of these restrictions.

However, these restrictions and notification obligations do not apply to the extent that they restrict CHOML or the Independent Directors Committee from taking or refusing to take any action with respect to a bona fide Competing Transaction provided:

- ◆ the Competing Transaction was not encouraged, solicited or initiated by CHOML or the Independent Directors Committee; and
- ◆ the Independent Directors Committee has determined, in good faith and acting reasonably, that:
  - the Competing Transaction is a Superior Proposal or reasonably capable of becoming one; and
  - failing to respond to the Competing Transaction or providing details to the Bidders would be likely to constitute a breach of the fiduciary or statutory obligations of the members of the Independent Directors Committee.

CHOML is also restricted from entering into an agreement, arrangement or understanding in relation to a Competing Transaction unless and until it has given the Bidders full details of the Competing Transaction and at least 5 clear Business Days to make an offer to improve the consideration payable in relation to the Proposal or to propose an alternative transaction (**Increased Offer**). If the Bidders make an Increased Offer, the Independent Directors Committee must promptly decide whether that Increased Offer would be at least as favourable to Unitholders (other than the Excluded Unitholders) as the Competing Transaction. If the Independent Directors Committee decides the Increased Offer satisfies this test:

- ◆ CHOML must immediately give each Bidder notice advising of that decision;
- ◆ CHOML must not enter into any arrangement with respect to the Competing Transaction; and
- ◆ CHOML and the Bidders will promptly take all necessary steps to give effect to the Increased Offer; these steps will include each Independent Director making a public statement in favour of the Increased Offer.

### (b) Payment of a break fee

CHOML must pay the Bidders the Break Fee of \$11 million out of the assets of CQO in certain circumstances, and subject to certain exceptions, as set out in the table below:

Break Fee payable if:	Unless:
<p>Any member of the Independent Directors Committee makes a public statement withdrawing or adversely changing:</p> <ul style="list-style-type: none"> <li>◆ his recommendation Unitholders vote in favour of the Scheme Resolutions; or</li> <li>◆ his intention to vote any CQO Units in which he has a Relevant Interest in favour of the Scheme Resolutions,</li> </ul> <p>or (in the context of a Competing Transaction emerging) fails to make a public statement recommending an Increased Offer by the Bidders where the Independent Directors Committee has concluded the Increased Offer is in Scheme Unitholders' best interests.</p>	<p>The relevant public statement is made because the Independent Expert has concluded in the Independent Expert's Report that the Proposal is not in the best interests of Scheme Unitholders, where the reason the Independent Expert has reached such a conclusion is not the existence of a Superior Proposal.</p>
<p>The Bidders validly terminate the Scheme Implementation Agreement because:</p> <ul style="list-style-type: none"> <li>◆ an Independent Director makes or fails to make a public statement as outlined above; or</li> <li>◆ any member of the Independent Directors Committee recommends a Competing Transaction.</li> </ul>	<p>The relevant public statement is made or not made because the Independent Expert has concluded in the Independent Expert's Report that the Proposal is not in the best interests of Scheme Unitholders, where the reason the Independent Expert has reached such a conclusion is not the existence of a Superior Proposal.</p>

## 7. Additional information

Break Fee payable if:	Unless:
The Bidders validly terminate the Scheme Implementation Agreement because of a material, unremedied breach of the Scheme Implementation Agreement.	CHOML also has a right to validly terminate the Scheme Implementation Agreement in relation to a material breach by a Bidder.
At any time prior to the valid termination of the Scheme Implementation Agreement, an actual or proposed Competing Transaction is announced by a Third Party and within 12 months of such announcement that Third Party or an Associate of it obtains control of, or merges with, CHOML.	

### 7.4 CQO Units held by CHOML Directors

The numbers of CQO Units held by or on behalf of CHOML Directors as at the date of this Explanatory Memorandum are set out in the table below:

Director	Number of CQO Units
Roger Davis	24,777
James Broadbent	6,889
Andrew Love	Nil
David Harrison	Nil
David Southon	Nil

### 7.5 Interests in Bidders held by CHOML Directors

The numbers of securities or other interests in each Bidder held by, or on behalf of, each CHOML Director as at the date of this Explanatory Memorandum are set out in the table below:

Director	Number of CQO Units		
	Reco	PSP	CHPT <sup>52</sup>
Roger Davis	Nil	Nil	Nil
James Broadbent	Nil	Nil	Nil
Andrew Love	Nil	Nil	Nil
David Harrison	Nil	Nil	2,000,000
David Southon	Nil	Nil	2,048,360

Other than as set out in the table above, no securities or other interests of any Bidder are held by, or on behalf of, any CHOML Director.

### 7.6 Interests held by CHOML Directors in contracts entered into by any Bidder

No CHOML Director has any interest in any contract entered into by any Bidder (other than as in their capacity as a Scheme Unitholder).

### 7.7 Other interests of CHOML Directors

Except as set out in this section 7 and section 1.2(e) of this Explanatory Memorandum, no CHOML Director has any other interest, whether as a director, member or creditor of CQO or otherwise, which is material to the Proposal.

52. Units in the Charter Hall Property Trust are stapled to shares in Charter Hall Limited and trade as securities of Charter Hall Group (ASX:CHC) on ASX.

## 7.8 Agreements or arrangements with CHOML Directors

Other than the appointment of David Harrison, David Southon, Roger Davis, Andrew Love and James Broadbent to the CQO Committee as described in section 3.5(c), there are no agreements or arrangements between any CHOML Director and any other person in connection with, or conditional upon, the outcome of the Proposal.

## 7.9 Payments and other benefits to directors, secretaries, executive officers of CHOML or related bodies corporate of CHOML

No directors, secretaries or executive officers of CHOML or any related bodies corporate will receive any payment or other benefit as compensation for loss of, or consideration for or in connection with his or her retirement from office in CHOML or a Related Body Corporate as a result of the Proposal.

## 7.10 Issued CQO Units

As at the date of this Explanatory Memorandum, there are 493,319,730 CQO Units on issue that are quoted on ASX.

CQO does not anticipate that it will be required to issue any CQO Units before the Implementation Date.

## 7.11 CQO's substantial Unitholders

The substantial holders of CQO Units as at 9 February 2012 were:

Substantial Unitholder	Number of CQO Units	Voting power %
Charter Hall, PSP and Reco <i>Please see section 5.2 for more information about the Bidders' interests in CQO.</i>	72,217,797	14.64 <sup>53</sup>
National Australia Bank	61,991,235	12.57
Deutsche Bank Group	53,468,002	10.84
Luxor Capital Group, LP	48,691,559	9.87
UBS AG	34,379,955	6.97
Galaxy Nominees No 1 Pty Ltd (The Gandel Group Pty Ltd)	25,420,963	5.15
Vanguard Investments Australia Ltd	24,851,216	5.04

Other than in relation to the Bidders, CHOML relied on the substantial holder notices provided to it up to 9 February 2012, which are available on the ASX website, to compile this table.

Information in regard to substantial holdings arising, changing or ceasing before this time or in respect of which the relevant announcement is not available on the ASX website is not included above.

## 7.12 ASIC modifications

ASIC has provided in principle decisions regarding the following applications for exemptions and modifications in connection with this Explanatory Memorandum and the Proposal with drafting and settlement of appropriate relief instruments still to occur:

- ◆ a modification of item 7 of section 611 of the Corporations Act, allowing Unitholders (other than the Bidders and their Associates who hold CQO Units) to vote on the Proposal for the purpose of item 7 of section 611 of the Corporations Act;
- ◆ a modification of section 601FC(1)(d) of the Corporations Act to the extent necessary to allow CHOML to treat the Excluded Unitholders differently from other holders of CQO Units under the Proposal by excluding the CQO Units held by the Excluded Unitholders from the Proposal;
- ◆ an exemption from Division 5A of Part 7.9 of the Corporations Act in relation to the proposed offer to acquire Scheme Units under the Scheme;
- ◆ an exemption from the requirement to provide a financial services guide in relation to any general financial product advice by CHOML or CHPT contained in this Explanatory Memorandum;

53. Comprising:

- (a) 49,372,206 CQO Units (10.01%) held by CHCIT;
- (b) 1,295,000 CQO Units (0.26%) held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund;
- (c) 16,331,915 CQO Units (3.3%) held by Fir Tree Value Master Fund, L.P. and Fir Tree REOF II Master Fund LLC, which are subject to a Unit Transfer Agreement in favour of CHCIT (as disclosed to ASX on 21 June 2011 and 5 December 2012) (please note that Fir Tree Value Master Fund, L.P. and Fir Tree REOF II Master Fund LLC are not Associates of the Bidders); and
- (d) 5,218,676 CQO Units (1.06%) held by PSP.

## 7. Additional information

- ◆ an exemption under section 911A(2)(l) of the Corporations Act from the requirement for the Escrow Agent, the Bidders and CHOML to hold an Australian financial services licence in relation to any dealing in respect of issuing interests in the Escrow Account arrangements;
- ◆ an exemption under section 911A(2)(l) of the Corporations Act from the requirement for the Escrow Agent and the Bidders to hold an Australian financial services licence in relation to any financial product advice contained in this Explanatory Memorandum in respect of the Escrow Account;
- ◆ an exemption under section 1020F(1)(a) of the Corporations Act from the requirement for the Escrow Agent, the Bidders and CHOML to comply with Part 7.9 of the Corporations Act in respect of the Escrow Account arrangements;
- ◆ an exemption under section 911A(2)(l) of the Corporations Act from the requirement for Reco and PSP to hold an Australian financial services licence in relation to any general financial product advice contained in this Explanatory Memorandum; and
- ◆ an exemption under section 601QA(1)(a) of the Corporations Act for the Escrow Agent in respect of the requirement to register the Escrow Account arrangements as a managed investment scheme. ASIC has also been asked to grant the following exemptions and modifications in connection with this Explanatory Memorandum and the proposal which remains outstanding as at the date of this Explanatory Memorandum.

Drafting and settlement of appropriate relief instruments is still to occur.

ASIC has also been asked to grant the following exemptions and modifications in connection with this Explanatory Memorandum and the Proposal which remain outstanding as at the date of this Explanatory Memorandum.

- ◆ a modification of section 601PA of the Corporations Act to enable CQO to be deregistered as a managed investment scheme where all the members of CQO are wholesale clients and have all agreed to the deregistration;
- ◆ an exemption from section 601ED of the Corporations Act so that an immediate obligation to register CQO would not arise following deregistration; and
- ◆ a modification of section 601GC(1)(a) of the Corporations Act to enable the Bidders, along with CHCIT to modify the constitution of CQO on the Implementation Date by providing their written consent to the modification without holding a meeting of members.

### 7.13 ASX confirmations

ASX has confirmed the following:

- ◆ that the proposed amendments to the CQO Constitution are appropriate and equitable under ASX Listing Rule 6.12.3;
- ◆ pursuant to ASX Listing Rule 15.1.1, that ASX does not object to the proposed amendments to the CQO Constitution;
- ◆ that the proposed timetable for implementation of the Proposal is acceptable to ASX; and
- ◆ that ASX does not intend to object to this Explanatory Memorandum for the purposes of Listing Rule 15.1.7.

### 7.14 Consents to be named

The following persons have given and have not, before the date of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- ◆ Reco;
- ◆ PSP;
- ◆ CHPT;
- ◆ Charter Hall Group;
- ◆ Gilbert + Tobin as legal advisers to CHOML through the Independent Directors Committee;
- ◆ Merrill Lynch International (Australia) Limited as financial advisers to CHOML through the Independent Directors Committee;
- ◆ Greenwoods & Freehills as author of section 6 of this Explanatory Memorandum;
- ◆ Grant Samuel & Associates Pty Limited as the Independent Expert;
- ◆ Charter Hall Escrow Agent Pty Limited as the Escrow Agent;
- ◆ Ernst & Young as the Independent Accounting Expert; and
- ◆ Link Market Services Limited as the Registry.

Greenwoods & Freehills has given, and has not withdrawn, its written consent to the inclusion of section 6 and the references to that section in the form and context in which they are included in this Explanatory Memorandum.

Grant Samuel & Associates Pty Limited has given, and has not withdrawn, its written consent to the inclusion of the Independent Expert's Report and the references to that report in the form and context in which they are included in this Explanatory Memorandum.

Each Bidder has given, and has not withdrawn, its written consent to the inclusion of the Bidder Information and the references to that information in the form and context in which they are included in this Explanatory Memorandum.

Each party referred to in this section 7.14:

- ◆ does not make, or purport to make, any statement in this Explanatory Memorandum or any statement on which this Explanatory Memorandum is based other than statements and references included in this Explanatory Memorandum with the consent of that party (as set out above); and
- ◆ to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum, other than with respect to the statements and references included in this Explanatory Memorandum with the consent of that party (as set out above).

### 7.15 Documents Available

CQO is a disclosing entity for the purposes of the Corporations Act and as such is subject to periodic reporting and continuous disclosure obligations. Publicly disclosed information about all listed entities, including CQO, is available on the ASX website at [www.asx.com.au](http://www.asx.com.au).

CHOML is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by CHOML may be obtained from, or inspected at, ASIC offices. CHOML will provide free of charge, to any Unitholder who requests it before the Effective Date, a copy of:

- ◆ the audited financial report of CHOML and its controlled entities for the year ended 30 June 2011 (being the annual financial report most recently lodged with ASIC before this Explanatory Memorandum was provided to ASIC);
- ◆ the Scheme Implementation Agreement;
- ◆ each announcement to ASX made by CHOML after lodgement with ASIC of the annual report referred to above and before the Meeting; and
- ◆ once it has been lodged with ASIC and ASX, the financial report of CHOML and its controlled entities for the half-year ended 31 December 2011 (which is expected to be lodged with ASX and ASIC on or around 21 February 2012, and made available on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo) at the same time, which is after the date of despatch of this Explanatory Memorandum).

### 7.16 Supplementary information

CHOML will issue a supplementary document to this Explanatory Memorandum if, between the date of this Explanatory Memorandum and the Effective Date:

- ◆ CHOML becomes aware of any of the following:
  - a material statement in this Explanatory Memorandum is misleading or deceptive;
  - a material omission from this Explanatory Memorandum; or
  - a material new circumstance has arisen and disclosure about it would have been required to be included in this Explanatory Memorandum if known at the date of this Explanatory Memorandum; or
- ◆ a Bidder becomes aware, between the date of this Explanatory Memorandum and the Effective Date, that its Bidder Information, in the form and context in which it appears in this Explanatory Memorandum, is or has become misleading or deceptive in any material respect (whether by omission or otherwise). (Each Bidder has undertaken in the Scheme Implementation Agreement to promptly inform CHOML of such matters and to provide CHOML with such new or further information as is required to remedy the matter.)

A copy of the supplementary document will be provided to ASX and ASIC.

Depending on the nature of the timing of the changed circumstances and subject to obtaining any relevant approvals, CHOML may circulate and publish any supplementary document by:

- ◆ placing an advertisement in a prominent place in a newspaper which is circulated generally throughout Australia;
- ◆ posting the supplementary document on CQO's website [www.charterhall.com.au/cqo](http://www.charterhall.com.au/cqo); or
- ◆ posting the supplementary document to all Unitholders.

### 7.17 Other

#### (a) Stamp Duty

Each Bidder has undertaken pursuant to the Bidder Deed Poll to pay, in its Specified Acquisition Proportion, any stamp duty (including any related fines, penalties and interest) payable on or in connection with the transfer of Scheme Units under the Proposal, and to indemnify each Scheme Unitholder on demand for any failure to comply with this undertaking.

#### (b) Other material information

Otherwise than as contained or referred to in this Explanatory Memorandum, including the Independent Expert's Report and the other information that is contained in the Attachments to this Explanatory Memorandum, in the opinion of the Board of CHOML there is no other information that is material to the making of a decision by a Scheme Unitholder whether or not to vote in favour of the Resolutions, being information that is known to any CHOML Director and which has not been previously disclosed to CQO members.



## 8. Glossary

In this Explanatory Memorandum unless the context otherwise requires:

<b>\$ and AUD</b>	means Australian dollars unless otherwise stated.
<b>6 Month Date</b>	has the meaning given in section 3.2(c) of this Explanatory Memorandum.
<b>Adviser</b>	means, in relation to an entity, a financier, financial adviser, corporate adviser, legal adviser or technical or other expert adviser or consultant who provides advisory services in a professional capacity to the market in general and who has been engaged by that entity.
<b>AFSL</b>	means Australian financial services licence, which has the meaning given in s 761A of the Corporations Act.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>Associate</b>	has the meaning given in section 12 of the Corporations Act.
<b>ASX</b>	means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by it.
<b>ASX Listing Rules</b>	means the official listing rules, from time to time, of ASX.
<b>ATO</b>	means the Australian Taxation Office.
<b>Attachment</b>	means an attachment to this Explanatory Memorandum.
<b>Australian Assets</b>	means the assets in which CQO has a direct or indirect interest other than the US Assets, being the assets listed in section 4.2(c) of this Explanatory Memorandum.
<b>Bidder</b>	means each of: (a) Reco; (b) PSP; and (c) CHPT.
<b>Bidder Deed Poll</b>	means the deed poll executed by each Bidder in favour of each Scheme Unitholder in relation to the Proposal, a copy of which is contained in Attachment D.
<b>Bidder Information</b>	means, in respect of a Bidder, all information regarding that Bidder that is provided by or on behalf of the Bidder to CHOML for inclusion in this Explanatory Memorandum and is set out in section 5.
<b>Bidder Warranty</b>	means the representations and warranties given by each Bidder under clause 12.1 of the Scheme Implementation Agreement.
<b>Break Fee</b>	means \$11,000,000.
<b>Business Day</b>	means any day that is each of the following: (a) a business day as defined in the ASX Listing Rules; and (b) a day that banks are open for business in Sydney, Australia.
<b>Calculation Date</b>	has the meaning given in section 3.2(a) of this Explanatory Memorandum.
<b>cents</b>	means cents in an Australian dollar unless otherwise specified.

<b>Charter Hall Group</b>	means the stapled entity comprising Charter Hall Limited ABN 57 113 531 150 and CHPT and their respective Subsidiaries and controlled entities.
<b>CHCIT</b>	means Bieson Pty Ltd ACN 110 465 168 in its capacity as trustee of the Charter Hall Co-Investment Trust.
<b>CHESS</b>	means the Clearing House Electronic Subregister System for the electronic transfer of securities in Australia, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
<b>CHFML</b>	means Charter Hall Funds Management Limited ABN 31 082 991 786 (AFSL No. 262861) of Level 11, 333 George Street, Sydney, New South Wales, 2000 in its personal capacity.
<b>CHH</b>	has the meaning given in section 5.2 of this Explanatory Memorandum.
<b>CHOML</b>	means Charter Hall Office Management Limited ABN 75 006 765 206 (AFSL No. 247075) in its capacity as responsible entity of CQO (unless expressly provided that the reference to CHOML is in its personal capacity).
<b>CHOML Board</b>	means the board of directors of CHOML from time to time.
<b>CHOML Warranty</b>	means the representations and warranties given by CHOML under clause 12.3 of the Scheme Implementation Agreement.
<b>CHPT</b>	means CHFML in its capacity as responsible entity of the Charter Hall Property Trust ARSN 113 339 147 of Level 11, 333 George Street, Sydney, New South Wales 2000.
<b>Competing Transaction</b>	<p>means a transaction which:</p> <p>(a) if completed, would mean that a Third Party would:</p> <ul style="list-style-type: none"> <li>(i) directly or indirectly acquire an interest in, a Relevant Interest in, or become a holder of 20% or more of the CQO Units; or</li> <li>(ii) directly or indirectly acquire an interest in (other than through a direct or indirect acquisition of, or Relevant Interest in, the CQO Units) all or a material part of the business or assets of CQO or its Subsidiaries (other than through the CQO Units),</li> </ul> <p>including by way of takeover offer, merger, sale of assets, sale or issue of interests, amalgamation, trust scheme, business combination, liquidation, dissolution, recapitalisation or otherwise;</p> <p>(b) if completed, would mean that CHOML ceases to be the responsible entity of CQO or that there would be a change of control of CHOML; or</p> <p>(c) may otherwise compete with, or be inconsistent in any material respect with the consummation of, the Proposal.</p> <p>For the purposes of sub-paragraph (a)(ii) of this definition, the acquisition of an interest in part of the business or assets of CQO or its Subsidiaries will be material if:</p> <ul style="list-style-type: none"> <li>(a) the relevant business or businesses contribute 50% or more of the consolidated net profit of CQO and is or are not located in the United States of America; or</li> <li>(b) the assets represent 50% or more of the consolidated total assets of CQO and are not located in the United States of America.</li> </ul>
<b>Consortium</b>	<p>means each of:</p> <ul style="list-style-type: none"> <li>(a) the Bidders; and</li> <li>(b) CHCIT,</li> </ul> <p>and <b>Consortium Member</b> means any one of them.</p>

## 8. Glossary

<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth), as amended from time to time.
<b>Costs</b>	has the meaning given in section 3.2(c) of this Explanatory Memorandum.
<b>Court</b>	means the Supreme Court of New South Wales.
<b>CQO</b>	means Charter Hall Office REIT ARSN 093 016 838 of Level 11, 333 George Street, Sydney, New South Wales, 2000.
<b>CQO Committee</b>	means the CQO Contingent Consideration Committee established by CHOML as described in section 3.5(c) of this Explanatory Memorandum.
<b>CQO Committee Protocols</b>	means the protocols that will govern the operation of the CQO Committee on and from the Implementation Date as described in section 3.6(c) of this Explanatory Memorandum.
<b>CQO Constitution</b>	means the constitution of CQO, as amended from time to time.
<b>CQO Information</b>	means all information included in this Explanatory Memorandum, other than: (a) the Bidder Information; (b) the opinion of Greenwoods & Freehills contained in section 6 of this Explanatory Memorandum; and (c) the Independent Expert's Report.
<b>CQO Group</b>	means CQO and its Subsidiaries and a member of the CQO Group is a <b>CQO Group Member</b> .
<b>CQO Material Adverse Change</b>	means any event, change, matter, thing or condition which, individually or when aggregated with all such events, changes, matters, things or conditions, has, or could reasonably be expected to have the effect of diminishing either the annualised net property income referable to the Australian assets of the CQO Group by \$7.6 million or more for the 12 month period ending on the first anniversary of the Implementation Date, or the value of the consolidated Australian net tangible assets of the CQO Group by \$66.33 million or more, other than: (a) any matter fairly disclosed to the Bidders prior to the execution of the Scheme Implementation Agreement; (b) any matter publicly available prior to execution of the Scheme Implementation Agreement; (c) any matter arising from changes in tax, law or accounting policy after the date of the Scheme Implementation Agreement; (d) any changes in economic, market or business conditions or interest or exchange rates (including derivative mark to market movements); and (e) any Implementation Distributions and any US Sales Distributions, provided that (in relation to paragraphs (c) and (d)) such matter does not affect CQO in a manner that is materially disproportionate to the effect on other businesses of a similar size operating in the same industry as CQO.
<b>CQO Prescribed Occurrence</b>	has the meaning given in the Scheme Implementation Agreement.
<b>CQO Unit</b>	means a unit on issue in CQO.

<b>Defaulting Bidder</b>	has the meaning given in section 5.6 of this Explanatory Memorandum.
<b>Effective</b>	means, in relation to the Proposal, the coming into effect, pursuant to section 601GC(2) of the Corporations Act, of the Supplemental Deed.
<b>Effective Date</b>	means the date on which the Proposal becomes Effective. The Effective Date is expected to be 16 March 2012.
<b>Eligible Unitholders</b>	means the Scheme Unitholders and the Excluded Unitholders.
<b>End Date</b>	means 17 May 2012 or such later date as CHOML, the Bidders and CHFML agree in writing.
<b>Ernst &amp; Young</b>	means Ernst & Young Australia.
<b>Escrow Account</b>	has the meaning given in section 3.4(b) of this Explanatory Memorandum.
<b>Escrow Agent</b>	means Charter Hall Escrow Agent Pty Limited ACN 111 041 564, a member of the Charter Hall Group.
<b>Escrow Agent Deed Poll</b>	means the deed poll in the form of Attachment E executed by the Escrow Agent in favour of each Eligible Unitholder in relation to the Scheme.
<b>Exchange Rate</b>	means the foreign exchange spot rate as reported by Bloomberg under the code 'USD:AUD Currency' for USD to AUD (expressed to four decimal places). Note that for the purposes of expressing the Exchange Rate in this Explanatory Memorandum, the Exchange Rate is expressed to 2 decimal places.
<b>Excluded Unitholder</b>	means the Bidders and any of their Associates which holds CQO Units at the Record Date other than: <ul style="list-style-type: none"> <li>(a) PSP, in respect of the 5,218,676 CQO Units it holds at the date of this Explanatory Memorandum; and</li> <li>(b) JP Morgan Nominees Australia Limited, in respect of the 1,295,000 CQO Units it holds as custodian for the Charter Hall Property Securities Fund (managed by Reliance Investment Management Pty Ltd) at the date of this Explanatory Memorandum.</li> </ul>
<b>Explanatory Memorandum</b>	means this explanatory statement, including all Attachments.
	Any matter that is to be <b>Finally Determined</b> must be referred to, and finally settled by, arbitration in accordance with the IAMA Fast Track Arbitration Rules developed by the Institute of Arbitrators and Mediators Australia in force when the notice of arbitration is submitted in accordance with those IAMA Fast Track Arbitration Rules. The arbitration will be conducted in accordance with the laws of New South Wales. Any such arbitration meetings and proceedings must be held in Sydney, Australia.
<b>FIRB</b>	means the Foreign Investment Review Board.
<b>First Implementation Distribution</b>	has the meaning given in section 3.2(a) of this Explanatory Memorandum.
<b>GICR</b>	has the meaning given in section 5.3(c) of this Explanatory Memorandum.
<b>Greenwoods &amp; Freehills</b>	means Greenwoods & Freehills Pty Ltd ABN 60 003 146 852.

## 8. Glossary

<b>Gross Base Fee</b>	has the meaning given to it in 1.5(b) of this Explanatory Memorandum.
<b>GST</b>	means a goods and services tax or similar value added tax levied or imposed under the GST Law.
<b>GST Law</b>	has the meaning given to it in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Guidance Note 15</b>	means Guidance Note 15: Trust scheme mergers issued by the Takeovers Panel of Australia.
<b>Holdback Liabilities</b>	has the meaning given in section 3.2(b) of this Explanatory Memorandum.
<b>IE Valuation Range</b>	has the meaning given in the Chairman's Letter.
<b>Implementation Date</b>	means the date which is 5 Business Days after the Record Date, or such other date as CHOML, the Bidders and the Escrow Agent may agree in writing or as may be required by ASX. The Implementation Date is expected to be 30 March 2012.
<b>Implementation Distributions</b>	means the First Implementation Distribution and the Second Implementation Distribution.
<b>Increased Offer</b>	has the meaning given in section 7.3(a) of this Explanatory Memorandum.
<b>Independent Accounting Expert</b>	means Ernst & Young.
<b>Independent Director</b>	means any of Roger Davis, James Broadbent and Andrew Love, and <b>Independent Directors</b> means all three Independent Directors.
<b>Independent Directors Committee</b>	has the meaning given in section 1.3(d) of this Explanatory Memorandum.
<b>Independent Expert</b>	means Grant Samuel & Associates Pty Limited ABN 28 050 036 372.
<b>Independent Expert's Report</b>	means the report prepared by the Independent Expert, a copy of which is set out in Attachment F to this Explanatory Memorandum.
<b>Independent Review Agreement</b>	means the engagement letter dated 8 February 2012 between CHOML and the Independent Accounting Expert.
<b>Key Dates</b>	means the section entitled What are the key dates? on page 10 of this Explanatory Memorandum.
<b>Late Received US Sales Proceeds</b>	has the meaning given in section 3.2(c) of this Explanatory Memorandum.
<b>Macquarie</b>	means Macquarie Capital Group Limited ABN 54 096 705 109.
<b>Meeting</b>	means the meeting of Unitholders that is convened by the Notice of Meeting in Attachment A to this Explanatory Memorandum to consider the Scheme Resolutions and the RE Fees Resolution.
<b>Meeting Date</b>	has the meaning given in the Key Dates.



<b>New CQO Debt Facility</b>	means the \$1,000 million debt facility to be made available under the agreement to be entered into by CHOML pursuant to the credit approved Debt Term Sheet accepted by the Bidders on 6 December 2011.
<b>Nominee</b>	means, in respect of a Bidder, a wholly-owned Subsidiary of that Bidder nominated by it for the purposes of clause 4.1 of the Scheme Implementation Agreement.
<b>Offshore Liability</b>	has the meaning given in the Scheme Implementation Agreement, as summarised in section 3.2(b) of this Explanatory Memorandum.
<b>Pro Forma Australian Unaudited NTA</b>	means \$2.59, as detailed in section 4.5 of this Explanatory Memorandum.
<b>Proposal</b>	means the arrangement by which all of the Scheme Units will be transferred to the Bidders in exchange for the payment of Scheme Cash Consideration to Scheme Unitholders in respect of each Scheme Unit and under which other distributions and payments will be made to Eligible Unitholders as outlined in section 3 of this Explanatory Memorandum.
<b>PSP</b>	means Public Sector Pension Investment Board of 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8.
<b>Reco</b>	means Reco Ambrosia Pte Ltd of 168 Robinson Road, #37-01, Capital Tower, Singapore 068912.
<b>Reco Trust</b>	has the meaning given in section 5.3(c) of this Explanatory Memorandum.
<b>Record Date</b>	means 7:00 pm (Sydney time) on the date that is 5 Business Days after the Effective Date or such other date as may be agreed in writing between the parties to the Scheme Implementation Agreement or as may be required by ASX. It is currently expected that this date will be 7:00pm on 23 March 2012.
<b>RE Fees Resolution</b>	<p>means a special resolution for the purpose of section 601GC(1)(a) of the Corporations Act to approve amendments to the CQO Constitution to facilitate the payment to CHOML, on the Implementation Date, of CHOML's base fees and (if necessary) expenses for the period:</p> <p>(a) starting on the day after the final day of the most recently passed period in respect of which CHOML received a payment for its base fees; and</p> <p>(b) ending on the Implementation Date,</p> <p>calculated on a pro rata basis and otherwise in accordance with the CQO Constitution.</p>
<b>Register</b>	means the register of members of CQO kept pursuant to the Corporations Act, and <b>Registry</b> means the manager from time to time of the Register (currently Link Market Services Limited ABN 54 083 214 537).
<b>Regulatory Guide 74</b>	means ASIC Regulatory Guide 74: Acquisitions approved by members, as in force at the date of this Explanatory Memorandum.
<b>Related Body Corporate</b>	has the meaning given in the Corporations Act, as if references in that meaning to 'subsidiary' include Subsidiaries as defined for the purposes of this Explanatory Memorandum.
<b>Relevant Claim</b>	has the meaning given in the Scheme Implementation Agreement, as summarised in section 3.2(b) of this Explanatory Memorandum.
<b>Relevant Claims Provision</b>	has the meaning given in section 3.2(c) of this Explanatory Memorandum.
<b>Relevant Period</b>	has the meaning given to it in section 1.5(b) of this Explanatory Memorandum.

## 8. Glossary

<b>Representative</b>	means, in relation to a person: (a) a Related Body Corporate of the person; or (b) an officer of the person or any of the person's Related Bodies Corporate; or (c) an Adviser to the person or any of the person's Related Bodies Corporate.
<b>Resolutions</b>	means the Scheme Resolutions and the RE Fees Resolution.
<b>Scheme Cash Consideration</b>	has the meaning given in section 3.2(a) of this Explanatory Memorandum.
<b>Scheme Contingent Consideration</b>	has the meaning given in section 3.2(c)(ii) of this Explanatory Memorandum.
<b>Scheme Implementation Agreement</b>	means the agreement of that name dated 31 December 2011 between the Bidders, CHFML and CHOML, as amended from time to time.
<b>Scheme Resolutions</b>	means the following resolutions of the CQO Unitholders: (a) an ordinary resolution for the purpose of item 7 of section 611 of the Corporations Act to approve the acquisition by the Bidders or their Nominees of all of the Scheme Units; and (b) a special resolution for the purpose of section 601GC(1)(a) of the Corporations Act to approve the amendments to the CQO Constitution as set out in the Supplemental Deed and to authorise CHOML to execute and lodge with ASIC the Supplemental Deed to give effect to those amendments.
<b>Scheme Transfer</b>	means in relation to each Scheme Unitholder, a proper instrument of transfer of their Scheme Units for the purpose of section 1071B of the Corporations Act (which may be a master transfer of all or part of all of the Scheme Units).
<b>Scheme Unit</b>	means a CQO Unit on issue as at the Record Date (other than those CQO Units held by the Excluded Unitholders on that date).
<b>Scheme Unitholders</b>	means each person who holds Scheme Units as at the Record Date.
<b>Second Implementation Distribution</b>	has the meaning given in section 3.2(a) of this Explanatory Memorandum.
<b>Second Judicial Advice</b>	means confirmation from the Court under section 63 of the <i>Trustee Act 1925 (No 14)</i> (NSW) that, subject to Unitholders passing the Scheme Resolutions, CHOML would be justified in acting upon the Scheme Resolutions and in doing all things and taking all necessary steps to put the Proposal into effect.
<b>Second Judicial Advice Date</b>	means the first day of the hearing of an application made to the Court by CHOML for the Second Judicial Advice or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.
<b>Specified Acquisition Proportion</b>	means, in relation to each Bidder, the percentage figure equal to the percentage of the Scheme Units which that Bidder (or its Nominee) will be transferred under the Proposal, being: (a) in respect of Reco, 47.23%; (b) in respect of PSP, 47.23%; and (c) in respect of CHPT, 5.55%.

<b>Specified Holding Proportion</b>	<p>means, in relation to each Bidder, the percentage figure equal to the percentage of CQO Units which that Bidder (or its Nominee) (together with its Related Bodies Corporate) will hold immediately following the Implementation Date, being:</p> <p>(a) in respect of Reco, 42.5%;</p> <p>(b) in respect of PSP, 42.5%; and</p> <p>(c) in respect of CHPT, 15%.</p>
<b>Subsidiary</b>	<p>has the meaning given in the Corporations Act but so that:</p> <p>(a) an entity will also be considered to be a Subsidiary of a company or other entity if it is controlled by that company or other entity (expressions used in this paragraph have the meanings given for the purposes of Division 6 of Part 1.2 of the Corporations Act);</p> <p>(b) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; and</p> <p>(c) a corporation or trust may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation.</p>
<b>Superior Proposal</b>	<p>means a bona fide Competing Transaction which is received by CHOML after 31 December 2011 (other than following any breach by CHOML of its exclusivity obligations, which are summarised in section 7.3(a) of this Explanatory Memorandum), in respect of that Competing Transaction) which the Independent Directors Committee determines, acting in good faith and acting reasonably:</p> <p>(a) is reasonably capable of being valued and completed, taking into account all aspects of the Competing Transaction and the person or persons making it (including, without limitation, the financing of that Competing Transaction); and</p> <p>(b) would, if completed substantially in accordance with its terms, be more favourable to the Scheme Unitholders than the Proposal, taking into account all aspects of the Competing Transaction.</p>
<b>Supplemental Deed</b>	means a deed poll to be executed by CHOML in the form, or substantially in the form of Attachment B.
<b>Supplemental Deed (RE Fees)</b>	means a deed poll to be executed by CHOML in the form, or substantially in the form, of Attachment C.
<b>Tax Act</b>	means the <i>Income Tax Assessment Act 1936</i> (Cth) and the <i>Income Tax Assessment Act 1997</i> (Cth).
<b>Taxation of Financial Arrangements</b>	means the taxation of financial arrangements provisions as contained in Division 230 of the Tax Act.
<b>Third Party</b>	means a person other than a Bidder or its Representatives.
<b>Total Deduction</b>	has the meaning given to it in section 1.5(b) of this Explanatory Memorandum.
<b>Unaudited Balance Sheet</b>	means CQO's unaudited balance sheet as at 31 December 2011, details of which are provided in section 4.5 of this Explanatory Memorandum.
<b>Undisturbed Trading Price</b>	means the closing price of CQO Units on ASX on 26 August 2011 before disclosure by CHOML on 29 August 2011 of the indicative proposal by the original consortium.
<b>Unitholder</b>	means a holder of CQO Units from time to time.
<b>USD</b>	means United States dollars.

## 8. Glossary

<b>US Assets</b>	means the Properties the subject of the US Sale Contract (or CHOML's interests in those properties), being: <ul style="list-style-type: none"> <li>(a) Wells Fargo Center located in Denver, CO;</li> <li>(b) One California Plaza located in Los Angeles, CA</li> <li>(c) San Diego Tech Center located in San Diego, CA;</li> <li>(d) Cerritos Corporate Center located in Cerritos, CA;</li> <li>(e) Stadium Gateway located in Anaheim, CA;</li> <li>(f) One &amp; Three Christina Center located in Wilmington, DE;</li> <li>(g) SunTrust Financial Center located in Tampa, FL;</li> <li>(h) Chase Tower located in Indianapolis, IN;</li> <li>(i) Promenade II located in Atlanta, GA;</li> <li>(j) SunTrust Center located in Orlando, FL;</li> <li>(k) 700 Thirteenth Street located in Washington D.C.;</li> <li>(l) 30 Independence Boulevard located in New Jersey, NJ;</li> <li>(m) 745 Atlantic Avenue located in Boston, MA; and</li> <li>(n) Pasadena Towers located in Pasadena, CA.</li> </ul>
<b>US Asset Purchaser</b>	means BCSP VI Portfolio Acquisition LLC.
<b>US Asset Vendors</b>	means the entities comprising the "Seller" under the US Sale Contract.
<b>US Sale Contract</b>	means the Purchase and Sale Agreement dated 2 August 2011 (as amended from time to time including by a First Amendment to Purchase and Sale Agreement, dated 22 September 2011) between the US Asset Vendors and the US Asset Purchaser.
<b>US Sales Distributions</b>	has the meaning given in section 3.2(b) of this Explanatory Memorandum.
<b>US Sale Proceeds</b>	means the net proceeds received from the completion of the US Sale Process after repayment or transfer of the debt principal and accrued interest and payment of or provision for all sale costs, taxes, debt transfer or break costs and price adjustments (including market adjustments relating to pre and post-closing committed leasing costs and committed capital expenditure) and includes any accrued earnings from the US Assets (to the extent not prorated as part of the closing of a sale of a US Asset) such as rental receipts and interest saved on Australian debt or accruing on cash proceeds from the sale of the US Assets, but does not include any payment received by a CQO Group member pursuant to a claim made by a CQO Group member under the sale agreement for the US Assets.
<b>US Sale Process</b>	means the sale of 100% of CQO's interest in the US Assets for a gross price of USD1.71 billion to the US Asset Purchaser, as disclosed on behalf of CQO to ASX by announcement dated 3 August 2011.
<b>US Taxes</b>	has the meaning given in section 3.2(b) of this Explanatory Memorandum.
<b>US Taxes Account</b>	has the meaning given in the Scheme Implementation Agreement.
<b>VWAP</b>	means volume weighted average price which is the ratio of the value of securities traded to total volume of securities traded over a particular timeframe.





ARGUS CENTRE, 300 LATROBE STREET, MELBOURNE VIC

## Attachment A - Notice of Meeting

Notice is given by Charter Hall Office Management Limited (ABN 75 006 765 206) (AFSL No. 247075) (**CHOML**) as responsible entity of the Charter Hall Office REIT (ARSN 093 016 838) (**CQO**) that a meeting of Unitholders (**Meeting**) of CQO will be held at:

Location: Ballroom 1, The Westin Sydney, No.1 Martin Place, Sydney NSW 2000

Date: Thursday, 15 March 2012

Time: 10:00am

### Agenda

The business of the Meeting will consist of the following:

#### Resolution 1: Approval of amendments to CQO Constitution to effect Proposal

To consider and, if thought fit, to pass a special resolution of Charter Hall Office REIT in the following terms:

*"That, subject to the passing of Resolution 2 in the Notice of Meeting convening this meeting, the constitution of Charter Hall Office REIT is amended in accordance with the provisions of the supplemental deed poll in the form tabled at the meeting and initialled by the Chairman of the meeting for the purposes of identification (**Supplemental Deed**), and the responsible entity of Charter Hall Office REIT is authorised to execute and lodge the Supplemental Deed with the Australian Securities and Investments Commission."*

#### Resolution 2: Approval of the Proposal by CHOML

To consider and, if thought fit, to pass an ordinary resolution of Charter Hall Office REIT in the following terms:

*"That, subject to the passing of Resolution 1 in the Notice of Meeting convening this meeting, the proposal described in the Explanatory Memorandum accompanying the Notice of Meeting convening this meeting as the "Proposal" (including, if applicable, as amended by any supplementary Explanatory Memorandum), under which the Bidders or their Nominees will acquire the Scheme Units, on the terms and subject to the conditions of the Proposal, is approved for all purposes including for the purposes of item 7 of section 611 of the Corporations Act."*

#### Resolution 3: Approval of amendments to CQO Constitution to facilitate certain payments to CHOML

To consider and, if thought fit, to pass a special resolution of Charter Hall Office REIT in the following terms:

*"That, subject to the passing of Resolutions 1 and 2 in the Notice of Meeting convening this meeting and the Proposal becoming Effective (each as defined in the Explanatory Memorandum accompanying the Notice of Meeting), the constitution of Charter Hall Office REIT is amended in accordance with the provisions of the supplemental deed poll in the form tabled at the meeting and initialled by the Chairman of the meeting for the purposes of identification (**Supplemental Deed (RE Fees)**), and the responsible entity of Charter Hall Office REIT is authorised to execute and lodge the Supplemental Deed (RE Fees) with the Australian Securities and Investments Commission."*

### Voting information

#### Explanatory Memorandum

**This Notice of Meeting should be read in conjunction with the Explanatory Memorandum that accompanies this Notice. Section 1.5 of the Explanatory Memorandum contains an explanation of the resolutions above.**

The Explanatory Memorandum provides a summary of the Proposal and sets out why you should vote in favour of the Proposal and why you might vote against the Proposal to enable you to make an informed decision as to how to vote on Resolutions 1 and 2 above.

The Explanatory Memorandum provides a summary of the RE Fees Resolution (Resolution 3 above) and sets out why you should vote in favour of the RE Fees Resolution and why you might vote against the RE Fees Resolution to enable you to make an informed decision as to how to vote on Resolution 3 above.

Unless otherwise defined in this Notice of Meeting, terms used in this Notice of Meeting have the same meaning as set out in section 8 of the Explanatory Memorandum.

#### Voting entitlement

Unitholders registered as holders of units in CQO issued as at 7.00pm on 13 March 2012 will be entitled to attend and vote at the meeting (subject to any applicable voting exclusion).



### **Voting exclusion statement**

Under section 253E of the Corporations Act, CHOML and its Associates are not entitled to vote on the Resolutions set out in this Notice of Meeting if they have an interest in a Resolution or matter other than as a member of CQO. Accordingly, no votes will be cast in favour of the Resolutions by CHOML and its Associates.

In accordance with Takeovers Panel Guidance Note 15, any votes in favour of Resolution 1 or 2 cast by a Bidder or its Associates must be disregarded. In addition, in accordance with item 7 of section 611 of the Corporations Act, none of the Bidders or their Associates will vote on the resolution approving the Proposal for the purposes of that provision (the acquisition resolution). Accordingly, no Bidder or its Associates will vote in favour of Resolutions 1 or 2.

### **Quorum**

The quorum for the Meeting is 2 Unitholders present in person or by proxy together holding at least 10% of all CQO Units.

### **Required majorities**

Resolutions 1 and 3 must be approved by special resolution which require approval by at least 75% of the votes cast by Unitholders entitled to vote on the resolution. Resolution 2 is an ordinary resolution, and will be passed if more than 50% of the votes cast by Unitholders entitled to vote on the resolution are in favour.

### **Relationship between the Resolutions**

Resolutions 1 and 2 are interconditional and the Proposal will only proceed if both Resolutions 1 and 2 are passed at the Meeting by the requisite majorities.

Resolution 3 is conditional on both Resolutions 1 and 2 being passed at the Meeting by the requisite majorities. Resolution 3 is also conditional on the Proposal becoming Effective.

Resolutions 1 and 2 are **not** conditional on approval of Resolution 3. If at the Meeting Resolutions 1 and 2 are approved, but Resolution 3 is not approved, the Proposal will still proceed.

### **Appointment of Chairman**

In accordance with the Corporations Act and the CQO Constitution, CHOML has appointed Roger Davis to chair the Meeting.

### **Voting in person, by attorney or corporate representative**

If you wish to vote in person, you must attend the Meeting.

If you cannot attend the Meeting you may vote by proxy, attorney or if you are a body corporate, by appointing a corporate representative.

Attorneys who plan to attend the Meeting should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Meeting.

A body corporate which is a Unitholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 253B of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

### **Right to appoint a proxy**

A Unitholder has the right to appoint a proxy to attend and vote at the Meeting on their behalf. A proxy does not need to be a member of Charter Hall Office REIT, and you may appoint the Chairman of the Meeting as your proxy. A Unitholder may appoint up to two proxies, and if so, the Unitholder may specify the proportion or number of votes each proxy is appointed to exercise. If you appoint two proxies and do not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes. The Proxy Form, which accompanies this Notice of Meeting, includes instructions on how to vote and appoint a proxy.

To be valid, Link Market Services Limited (**Registry**) or CHOML must receive your Proxy Form no later than 10:00am Sydney time on 13 March 2012, that is, 48 hours before the Meeting. Proxy Forms may be lodged using the reply paid envelope or:

- ◆ online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) in accordance with the Proxy Form;
- ◆ by mailing it to: Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235
- ◆ by faxing it to: +61 2 9287 0309; or
- ◆ by delivering it to: Link Market Services Limited, Level 12, 680 George Street, Sydney, NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138.

## Attachment A - Notice of Meeting

If you appoint the Chairman of the Meeting as your proxy and you do not specifically direct how your proxy is to vote on a Resolution, you will be taken to have directed the Chairman to vote in favour of the Resolution and the Chairman of the Meeting will exercise your votes in favour of the Resolutions.

If your attorney executes the Proxy Form on your behalf, the power of attorney pursuant to which they act must have been previously provided to CHOML or the Registry or a certified copy must be lodged along with your Proxy Form.

### **Corporate representatives**

A company wishing to appoint a person to act as its representative at the meeting must provide that person with a letter executed in accordance with the company's constitution and the Corporations Act authorising him or her to act as the member's representative.

To be effective, the letter or certificate by which a representative is appointed by the company must be received by the Registry at least 48 hours before the Meeting.

### **Voting to be undertaken by poll**

Voting on all of the Resolutions will be by way of poll, rather than a show of hands.

**Issued by Charter Hall Office Management Limited (ABN 75 006 765 206) (AFSL No. 247075) as responsible entity of the Charter Hall Office REIT (ARSN 093 016 838).**

10 February 2012



**Natalie Allen (Company Secretary)**

[This page is intentionally left blank]



## Supplemental Deed

Charter Hall Office Management Limited

Amending the Constitution for the Charter Hall Office REIT

Allens Arthur Robinson  
Level 28  
Deutsche Bank Place  
Corner Hunter and Phillip Streets  
Sydney NSW 2000 Australia  
Tel +61 2 9230 4000  
Fax +61 2 9230 5333  
[www.aar.com.au](http://www.aar.com.au)

© Copyright Allens Arthur Robinson, Australia 2012

## Supplemental Deed

### Date

[\*] March 2012

### Party

**Charter Hall Office Management Limited** (ACN 006 765 206) as responsible entity of the Charter Hall Office REIT (ARSN 093 016 838) of Level 11, 333 George Street, Sydney NSW 2000 (the **Responsible Entity**).

### Recitals

- A The Responsible Entity is the responsible entity of the Charter Hall Office REIT (ARSN 093 016 838) (the **Fund**), which was established under the Constitution.
- B The Fund has been registered by the Australian Securities and Investments Commission (**ASIC**) as a managed investment scheme pursuant to section 601EB of the *Corporations Act 2001* (Cth) (the **Corporations Act**).
- C The Units of the Fund are quoted and traded on the ASX.
- D The Responsible Entity and the Bidders have agreed, by executing a Scheme Implementation Agreement dated 31 December 2011, as amended from time to time (the **SIA**), to propose and implement the Scheme.
- E The Constitution must be amended to facilitate the Scheme.
- F Under clause 22 of the Constitution, subject to the Corporations Act, the Responsible Entity may modify, repeal or replace the Constitution by a supplemental deed made by the Responsible Entity.
- G Section 601GC(1)(a) of the Corporations Act provides that the Constitution may be modified by special resolution of the Members of the Fund.
- H At a meeting held on [\*] 2012 convened in accordance with the Corporations Act and clause 15 of the Constitution, the Members of the Fund approved certain resolutions, including a special resolution to make the amendments to the Constitution contained in this Supplemental Deed.
- I Pursuant to section 601GC(2) of the Corporations Act, the amendments to the Constitution set out in this Supplemental Deed cannot take effect until the amendments have been lodged with ASIC.
- J Each Bidder and the Escrow Agent has entered into a deed poll for the purpose of covenanting in favour of the Members that it will observe and perform the obligations contemplated of it under the Scheme and the SIA.



### Supplemental Deed

Allens Arthur Robinson 

It is declared as follows.

#### 1. Definitions and Interpretation

##### 1.1 Definitions

In this Supplemental Deed including the Recitals, the following definitions apply unless the context otherwise requires.

**ASX** means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

**Bidders** means Reco, PSP and CHPT, and each of Reco, PSP and CHPT is a **Bidder**.

**CHPT** means Charter Hall Funds Management Limited (ABN 31 082 991 786) in its capacity as responsible entity of the Charter Hall Property Trust (ARSN 113 339 147) of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**Constitution** means the trust deed dated 8 October 1993 constituting the Fund, as amended from time to time.

**Effective Time** means the date and time on which a copy of this Supplemental Deed is, or the modifications set out in it are, lodged with ASIC under section 601GC(2) of the Corporations Act.

**Escrow Agent** means Charter Hall Escrow Agent Pty Limited (ACN 111 041 564) of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**Member** means a person who is registered in the Register as the holder of one or more Units from time to time.

**PSP** means Public Sector Pension Investment Board of 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8.

**Reco** means Reco Ambrosia Pte Ltd of 168 Robinson Road, #37-01, Capital Tower, Singapore 068912.

**Register** means the register of members kept by the Responsible Entity under the Corporations Act.

**Scheme** means the arrangement set out in the SIA and facilitated by the amendments to the Constitution set out in this Supplemental Deed.

**Unit** has the meaning given in the Constitution.

##### 1.2 Interpretation

Clauses 27.2 (Interpretation) and 22.2 (Statutory requirements) of the Constitution apply to this Supplemental Deed as if set out in this Supplemental Deed.

##### 1.3 Benefit of this Supplemental Deed

This Supplemental Deed is made by the Responsible Entity with the intent that the benefit of this Supplemental Deed shall enure to the benefit of Members, jointly and severally.

## Supplemental Deed

Allens Arthur Robinson 

### 2. Amendments to Constitution

On and from the Effective Time, the Constitution is amended in the manner set out in the Schedule.

### 3. No Resettlement

The Responsible Entity confirms that it is not by this Supplemental Deed intending to:

- (a) settle or re-declare the trust declared under the Constitution; or
- (b) cause the transfer, vesting or accruing of any property comprising the assets of the Fund in any person.

### 4. Governing Law and Jurisdiction

This Supplemental Deed is governed by the laws of New South Wales and the Responsible Entity submits to the non-exclusive jurisdiction of courts exercising jurisdiction there.

### Executed and delivered as a Deed Poll in Sydney

**Executed** as a deed in accordance with section 127 of the *Corporations Act 2001* by **Charter Hall Office Management Limited** in its capacity as responsible entity of the Charter Hall Office REIT:

\_\_\_\_\_  
Director Signature

\_\_\_\_\_  
Director/Secretary Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Name

### Supplemental Deed

Allens Arthur Robinson 

#### Schedule

#### Amendments to the Constitution for the Charter Hall Office REIT

The Constitution is amended as follows:

1. In clause 27.1 of the Constitution, by inserting the following definitions in alphabetical order:

**ADI** has the meaning given in the Corporations Act.

**ASX Listing Rules** means the official listing rules of ASX.

**Bidder Deed Poll** means the deed poll executed by each Bidder in favour of each Scheme Unitholder in relation to the Scheme.

**Bidders** means Reco, PSP and CHPT, and each of Reco, PSP and CHPT is a **Bidder**.

**CHESS** means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532).

**Charter Hall** means Charter Hall Funds Management Limited (ABN 31 082 991 786) in its personal capacity of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**CHPT** means Charter Hall Funds Management Limited (ABN 31 082 991 786) in its capacity as trustee of Charter Hall Property Trust (ARSN 113 339 147) of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**Claim** has the meaning given in the Scheme Implementation Agreement.

**CQO Committee Member** has the meaning given in the Scheme Implementation Agreement.

**Defaulting Bidder** has the meaning given in the Scheme Implementation Agreement.

**Effective Time** means the date on which the amendments to this Constitution to facilitate the Scheme, including insertion of clause 28, take effect pursuant to section 601GC(2) of the Corporations Act.

**Escrow Account** means the account established by the Escrow Agent pursuant to clause 4.2(b) of the Scheme Implementation Agreement.

**Escrow Agent** means Charter Hall Escrow Agent Pty Limited (ACN 111 041 564) of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**Escrow Agent Deed Poll** means the deed poll executed by the Escrow Agent in favour of each Scheme Unitholder in relation to the Scheme.

**Excluded Unitholder** means the Bidders and any of their Associates (as defined in section 12 of the Corporations Act) which hold Units at the Record Date other than:

- (a) PSP in respect of its holding of 5,218,676 Scheme Units (which Scheme Units may not be voted on any of the Scheme Resolutions, notwithstanding anything to the contrary in this Constitution); and
- (b) JP Morgan Nominees Australia Limited, in respect of the 1,295,000 CQO Units it holds as custodian for the Charter Hall Property Securities Fund (managed by Reliance Investment Management Pty Ltd).

**Finally Determined** has the meaning given in the Scheme Implementation Agreement.

**Implementation Date** means the date which is 5 Business Days after the Record Date, or:

- (a) such other date as the parties to the Scheme Implementation Agreement may agree in writing or as may be required by ASX, or
- (b) the Business Day following the date, within the cure period set out in clause 4.1(b)(vii) of the Scheme Implementation Agreement, on which the Defaulting Bidder (or, where there are more than one, the final Defaulting Bidder) makes the payments referred to in clause 4.1(b)(ii) of the Scheme Implementation Agreement.

**New CQO Debt Facility** means the \$1,000 million debt facility to be made available under the agreement to be entered into by the Responsible Entity pursuant to the credit approved Debt Term Sheet accepted by the Bidders on 6 December 2011.

**Nominee** means, in respect of a Bidder, a wholly owned Subsidiary of that Bidder nominated by it for the purposes of clause 4.1 of the Scheme Implementation Agreement.

**PSP** means Public Sector Pension Investment Board of 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8.

**Reco** means Reco Ambrosia Pte Ltd of 168 Robinson Road, #37-01, Capital Tower, Singapore 068912.

**Record Date** means 7.00pm (Sydney time) on the date that is 5 Business Days after the Effective Date or such other date as may be agreed in writing between the parties to the Scheme Implementation Agreement or as may be required by ASX.

**Registered Address** means, in relation to a Member, the address of that Member shown on the Register.

**Responsible Entity** has meaning given to the term *Manager* in this Constitution.

**Scheme** means the arrangement by which all of the Scheme Units will be transferred to the Bidders for the Scheme Consideration, as set out in clause 28.

**Scheme Cash Consideration** has the meaning given in clause 28.2(a)(iii).

**Scheme Consideration** means the Scheme Cash Consideration and the Scheme Contingent Consideration.

**Scheme Contingent Consideration** has the meaning given in the Scheme Implementation Agreement.

**Scheme Implementation Agreement** means the agreement of that name dated on 31 December 2011 between the Bidders, Charter Hall, the Escrow Agent and the Responsible Entity, as amended from time to time.

**Scheme Resolutions** means the following resolutions of Members:

- (a) an ordinary resolution approving for the purpose of item 7 of section 611 of the Corporations Act to approve the acquisition by the Bidders or Related Body Corporates of the Bidders of all of the Scheme Units; and
- (b) a special resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendment to this Constitution to facilitate the Scheme.

### Supplemental Deed

Allens Arthur Robinson 

**Scheme Transfer** means in relation to each Scheme Unitholder, a proper instrument of transfer of their Scheme Units for the purpose of section 1071B of the Corporations Act (which may be a master transfer of all or part of all of the Scheme Units).

**Scheme Unitholder** means a person who holds Scheme Units as at the Record Date.

**Scheme Units** means Units on issue as at the Record Date (other than those Units held by the Excluded Unitholders at that date).

**Second Judicial Advice Date** means the first day of the hearing of an application made to the Court by the Responsible Entity for the Second Judicial Advice or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

**Specified Acquisition Proportion** means, in relation to each Bidder, the percentage figure equal to the percentage of the Scheme Units which that Bidder (or its Nominee) will be transferred pursuant to clause 28.2(a)(ii), being:

- (a) in respect of Reco, 47.23%;
- (b) in respect of PSP, 47.23%; and
- (c) in respect of CHPT, 5.55%.

**Specified Holding Proportion** means, in relation to each Bidder, the percentage figure equal to the percentage of CQO Units which that Bidder (or its Nominee) (together with its Related Bodies Corporate) will hold immediately following the Implementation Date, being:

- (a) in respect of Reco, 42.5%;
- (b) in respect of PSP, 42.5%; and
- (c) in respect of CHPT, 15%.

2. In clause 27.1 of the Constitution, by replacing the definition of "ASX" with:

**ASX** means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

3. After clause 27.7 of the Constitution, by inserting a new clause 27.8 as set out below:

**27.8 Bidders to act jointly**

- (a) Where clause 28 of the Constitution confers any right or permission on the Bidders (rather than on an individual Bidder) the Bidders must exercise that right or permission jointly.
- (b) Despite any other provision of this Constitution, any obligation imposed on or liability of the Bidders (rather than on an individual Bidder) under this Constitution is an obligation or liability, as the case may be, of the Bidders severally in their Specified Acquisition Proportions, except where the relevant obligation or liability, as the case may be, is expressly stated to be of the Bidders in their Specified Holding Proportions.

4. After clause 27 of the Constitution, by inserting a new clause 28 as set out below:

### **28. Scheme**

#### **28.1 Implementation of Scheme**


- (a) Each Scheme Unitholder and the Responsible Entity must do all things and execute all deeds, instruments, transfers or other documents as the Responsible Entity considers are necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it.
- (b) Without limiting the Responsible Entity's other powers under this clause 28, the Responsible Entity has power to do all things that it considers necessary or desirable to give effect to the Scheme and the Scheme Implementation Agreement.
- (c) Subject to the Corporations Act, the Responsible Entity, the Bidders, the Escrow Agent or any of their respective directors, officers, employees or associates may do any act, matter or thing described in or contemplated by this clause 28 even if they have an interest (financial or otherwise) in the outcome.
- (d) This clause 28:
  - (i) binds the Responsible Entity and all of the Members from time to time (including those who do not attend the Scheme Meeting, those who do not vote at the Scheme Meeting and those who vote against the Scheme Resolutions); and
  - (ii) to the extent of any inconsistency, overrides the other provisions of this Constitution (excluding clauses 2 and 22.4).

#### **28.2 Scheme**

- (a) Subject to each Bidder having complied with its payment obligations under clause 4.1(b)(ii) of the Scheme Implementation Agreement, the following steps will occur in the following order:
  - (i) on the Implementation Date, the Responsible Entity will pay to the Members as at the Record Date a special distribution of:
    - (A) \$0.5900 per Unit to be funded, subject to the Scheme Implementation Agreement, to the maximum extent from available cash at that time, and the balance by drawing down on the New CQO Debt Facility on the Business Day prior to the Implementation Date; and
    - (B) an amount per Unit of USD34 million, after conversion into Australian dollars at the prevailing exchange rate on the third Business Day prior to the Record Date, divided by the number of Units on issue as at the Record Date,with the aggregate amount payable to a Member under this clause 28.2(a)(i) to be rounded down to the nearest one cent;
  - (ii) on the Implementation Date, all of the Scheme Units will be transferred in the following proportions:
    - (A) 209,660,885 Scheme Units will be transferred to Reco (or its Nominee);



### Supplemental Deed

Allens Arthur Robinson 

- (B) 209,660,885 Scheme Units will be transferred to PSP (or its Nominee);  
and
- (C) 24,625,754 Scheme Units will be transferred to CHPT (or its Nominee),  
with each of the transfers to be sourced in the order set out above from the Units as  
they appear on the Register; and
- (iii) on the Implementation Date, the Responsible Entity will pay, out of the funds held  
on trust for Scheme Unitholders under clause 4.1(b)(iv) of the Scheme  
Implementation Agreement, to each Scheme Unitholder an amount per Scheme  
Unit equal to \$2.49 less the amount per Unit of the special distribution referred to  
in clause 28.2(a)(i) (***Scheme Cash Consideration***), with the aggregate amount  
payable to a Scheme Unitholder under this clause 28.2(a)(iii) to be rounded down  
to the nearest one cent; and
- (iv) the Escrow Agent will pay, out of funds held in the Escrow Account established  
pursuant to clause 4.2(b) of the Scheme Implementation Agreement, the Scheme  
Contingent Consideration on such dates and in such manner as set out in clause  
4.1(e) of the Scheme Implementation Agreement.
- (b) Any obligation imposed on the Responsible Entity or the Escrow Agent under  
clause 28.2(a)(iii) to pay an amount to a Member will be satisfied by the Responsible Entity  
or the Escrow Agent (as applicable):
  - (i) sending (or procuring the Registrar to send) the amount by cheque in Australian  
currency to the registered address of the Member, as shown on the Register as at  
the Record Date; or
  - (ii) if applicable, taking all steps required of it to deposit (or procuring the Registrar to  
take all steps required of it to deposit) the amount in Australian currency and in  
cleared funds into the account nominated by the Member prior to the Second  
Judicial Advice Date as that into which distributions should be made, provided that  
account is with an Australian ADI.
- (c) If:
  - (i) the Responsible Entity or the Escrow Agent believes that a Member is not known  
at the Member's Registered Address;
  - (ii) no account has been notified in accordance with clause 28.2(b)(ii); or
  - (iii) a deposit into such an account is rejected or refunded,the Responsible Entity or the Escrow Agent (as applicable) may credit the amount payable  
to the relevant Member to a separate bank account of the Responsible Entity or the Escrow  
Agent (as applicable) to be held until the Member claims the amount or the amount is dealt  
with in accordance with any applicable unclaimed money legislation. The Responsible  
Entity or the Escrow Agent (as applicable) must hold the amount on trust. An amount  
credited to the account is to be treated as having been paid to the Member when credited to  
the account. The Responsible Entity or the Escrow Agent (as applicable) must maintain  
records of the amounts paid, the people who are entitled to the amounts and any transfers of  
the amounts.

### 28.3 Dealings in Units

- (a) For the purpose of establishing the persons who are Scheme Unitholders and the number of Units held by them, dealings in Units will be recognised by the Responsible Entity if:
  - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Units by the Record Date; and
  - (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Registrar by the Business Day prior to the Record Date in which case the Responsible Entity must register such transfers or transmission applications before the Record Date,but not otherwise.
- (b) The Responsible Entity will, until the Scheme Cash Consideration has been provided and the name and address of the Bidders or their Nominees have been entered in the Register as the holders of all of the Scheme Units, maintain, or procure the maintenance of, the Register in accordance with this clause 28.3. The Registrar, immediately after registration of registrable transfers or transmission applications of the kind referred to in paragraph (a) will solely determine the persons who are Scheme Unitholders and the number of Scheme Units held by them.
- (c) No Scheme Unitholder (or any person purporting to claim through them) may deal with Scheme Units in any way after the Record Date, and any attempt to do so will have no effect.
- (d) From the Record Date, all certificates and holding statements (as applicable) for Scheme Units as at the Record Date will cease to have any effect as evidence of title, and each entry on the Register as at the Record Date will cease to have any effect other than as evidence of the entitlements of Members to the Scheme Consideration.
- (e) Each Scheme Unitholder, and any person claiming through that Scheme Unitholder, must not dispose of or purport or agree to dispose of any Scheme Units or any interest in them, after the Record Date.

### 28.4 Covenants by Scheme Unitholders

Each Scheme Unitholder:

- (a) acknowledges that this clause 28 binds all of the Members from time to time (including those who do not attend the Scheme Meeting, do not vote at the Scheme Meeting or vote against the Scheme Resolutions) without the need for any further act by that Scheme Unitholder;
- (b) irrevocably agrees to the transfer of their Scheme Units, together with all rights, entitlements and obligations attaching to those Scheme Units, to the Bidders or their Nominees in accordance with the terms of the Scheme;
- (c) agrees to the modification or variation (if any) of the rights attaching to their Scheme Units arising from this clause 28;

### Supplemental Deed

Allens Arthur Robinson 

- (d) irrevocably consents to the Responsible Entity, the Bidders and the Escrow Agent doing all things and executing all deeds, instruments, transfers or other documents (including the Scheme Transfers) as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it; and
- (e) agrees to provide to the Responsible Entity and the Escrow Agent such information as the Responsible Entity or the Escrow Agent (as applicable) may reasonably require to comply with any law in respect of the Scheme and the transactions contemplated in this clause 28, including information required to meet obligations under the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth).

#### 28.5 Escrow Agent

- (a) Each Member agrees that, subject to the proviso below:
  - (i) despite any other provision of this Constitution or any other document, the Escrow Agent shall have no liability in respect of any amount due by it to any Member except to the extent of the amounts available in the Escrow Account (as applicable) on the relevant payment date under clause 4.1(e) of the Scheme Implementation Agreement; and
  - (ii) each Member unconditionally and irrevocably waives all Claims it may otherwise have against the Escrow Agent but for the operation of sub-paragraph (a)(i), and must not do or seek to do, and waives any rights it may have to do, any of the following things to the extent that doing any of these things would be inconsistent with the limitation of liability in sub-paragraph (a)(i):
    - (A) obtain a judgment for the payment of money or damages by the Escrow Agent;
    - (B) issue any demand under section 459E(1) of the Corporations Act (or any analogous provision under any other law) against the Escrow Agent;
    - (C) apply for the winding up of the Escrow Agent;
    - (D) levy or enforce any distress or other execution to, on, or against any assets of the Escrow Agent;
    - (E) apply for the appointment by a court of a receiver to any of the assets of the Escrow Agent;
    - (F) exercise or seek to exercise any set-off or counterclaim against the Escrow Agent; or
    - (G) commence proceedings in relation any of the above,

where the proviso is that the Escrow Agent's liability in respect of the Scheme Contingent Consideration will not be limited in the manner contemplated in this clause 28.5(a) if, following implementation of the Scheme, the Escrow Agent uses (or agrees to use) any of the funds in the Escrow Account for any purpose other than the making of a payment referred to in clauses 4.1(e), 4.2, 4.3 or 4.8 of the Scheme Implementation Agreement, and this use of the funds has been Finally Determined.

Each Member agrees that the waiver provided in this clause 28.5(a) may be pleaded as an absolute bar to any Claim commenced now or taken at any time by or on behalf of any Member against the Escrow Agent.

- (b) Each Member agrees that the Escrow Agent is not responsible to the Members for, nor will it be liable in respect of:
  - (i) any failure by another party to perform its obligations under the Scheme Implementation Agreement or the Bidder Deed Poll; or
  - (ii) any action taken or omitted to be taken by the Escrow Agent, except any fraud or wilful misconduct of any of its officers or employees, where such conduct has been Finally Determined to have occurred.
- (c) Each Member acknowledges that the limitation provisions in this clause 28.5 must be enforced by the Responsible Entity upon written request received from the Escrow Agent.

## 28.6 CQO Contingent Consideration Committee

- (a) Each Member agrees and acknowledges that a CQO Committee Member is not responsible to the Members for, nor will a CQO Committee Member be liable in respect of:
  - (i) any failure by another party to perform its obligations under the Scheme Implementation Agreement or the Bidder Deed Poll; or
  - (ii) any action taken or omitted to be taken by the CQO Committee Member, except any fraud or wilful misconduct of the CQO Committee Member, where such conduct has been Finally Determined to have occurred.
- (b) To the maximum extent permitted by law, each Member unconditionally and irrevocably waives all Claims they may have against the CQO Committee Members, and must not or seek to, and waives any rights they may have to, make any Claim against one or more CQO Committee Member. Each Member agrees that the release and waiver provided in this clause 28.6(b) may be pleaded as an absolute bar to any Claim commenced now or taken at any time by or on behalf of any Member against any one or more of the CQO Committee Members.
- (c) Each Member acknowledges that the limitation provisions in this clause 28.6 must be enforced by the Responsible Entity upon written request received from the Escrow Agent.

### Supplemental Deed

Allens Arthur Robinson 

#### **28.7 Appointment of the Responsible Entity as attorney and as agent for implementation of Scheme**

Each Scheme Unitholder, without the need for any further act by that Scheme Unitholder, irrevocably appoints the Responsible Entity as that Scheme Unitholder's attorney and as that Scheme Unitholder's agent for the purpose of:

- (a) doing all things and executing all deeds, instruments, transfers or other documents (including the Scheme Transfers) as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it, including effecting a valid transfer or transfers of the Scheme Units to the Bidders or their Nominees under clause 28.2;
- (b) enforcing the Bidder Deed Poll against the Bidders and the Escrow Agent Deed Poll against the Escrow Agent,

and the Responsible Entity accepts such appointment. The Responsible Entity, as attorney and as agent of each Scheme Unitholder, may sub-delegate its functions, authorities or powers under this clause 28.7 to all or any of its directors and officers (jointly, severally, or jointly and severally). Each Scheme Unitholder indemnifies the Responsible Entity and each of its directors and officers against all losses, liabilities, charges, costs and expenses arising from the exercise of powers under this clause.

#### **28.8 Status of Scheme Units**

- (a) To the maximum extent permitted by law, the Scheme Units transferred to the Bidders or their Nominees under this clause 28 will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) Each Scheme Unitholder is deemed to have warranted to the Responsible Entity in its own right and on behalf of the Bidder, that all their Scheme Units (including any rights, entitlements and obligations attaching to those Scheme Units) which are transferred to the Bidders under this clause 28 will, at the time of the transfer of them to the Bidders, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind not referred to in this Constitution, and that they have full power and capacity to sell and to transfer their Scheme Units to the Bidders pursuant to the Scheme.
- (c) The Bidders will be beneficially entitled to the Scheme Units transferred to each of them under this clause 28 pending registration by the Responsible Entity of the name and Registered Address of the Bidders in the Register as the holder of the relevant Scheme Units.

#### **28.9 Suspension and termination of quotation of Units**

- (c) The Responsible Entity must apply to ASX for suspension of trading of the Units on ASX with effect from the close of business on the Effective Date.
- (d) The Responsible Entity must apply to ASX for termination of official quotation of the Units on ASX and the removal of the Fund from the official list of the ASX with effect from the

Business Day immediately following the Implementation Date, or from such later date as may be determined by the Bidders.

### **28.10 Notices**

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to the Responsible Entity, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at the Responsible Entity's registered office or by the Registrar, as the case may be.

### **28.11 Stamp duty**

Each Bidder will pay any stamp duty that is payable on the transfer to that Bidder or its Nominee of Scheme Units pursuant to the Scheme.

### **28.12 Limitation of liability**

Without limiting clauses 16.3 or 17, subject to the Corporations Act, the Responsible Entity will not have any liability of any nature whatsoever to Members, beyond the extent to which the Responsible Entity is actually indemnified out of the Assets, arising, directly or indirectly, from the Responsible Entity doing or refraining from doing any act (including the execution of a document), matter or thing pursuant to or in connection with the implementation of the Scheme.

### **28.13 Responsible Entity's expenses**

Without limiting clause 19.6, all expenses incurred by the Responsible Entity in relation to the Scheme and the Scheme Implementation Agreement are payable or reimbursable out of the Assets to the extent that such reimbursement is not prohibited by the Corporations Act.





LAWYERS

---

### **Supplemental deed**

### Amending the Constitution for the Charter Hall Office REIT (RE Fees)

Charter Hall Office Management Limited

+ SYDNEY + MELBOURNE + PERTH

[www.gtlaw.com.au](http://www.gtlaw.com.au)

---

## Contents

	Page
1 Defined terms and interpretation	2
1.1 Definitions	2
1.2 Interpretation	2
1.3 Benefit of this deed	2
2 Amendments to Constitution	2
3 No resettlement	2
4 Governing law and jurisdiction	3
Execution page	4
Schedule 1 — Amendments to the Constitution of the Charter Hall Office REIT	5

## Attachment C - Supplemental Deed (RE Fees)

Date:

---

### Party

**Charter Hall Office Management Limited** (ACN 006 765 206) as responsible entity of the Charter Hall Office REIT (ARSN 093 016 838) of Level 11, 333 George Street, Sydney NSW 2000 (**Manager**)

---

### Recitals

- A The Manager is the responsible entity of the Charter Hall Office REIT (ARSN 093 016 838) (**Fund**), which was established under a trust deed dated 8 October 1993, as amended from time to time (**Constitution**).
- B The Fund has been registered by the Australian Securities and Investments Commission (**ASIC**) as a managed investment scheme pursuant to section 601EB of the *Corporations Act 2001* (Cth) (**Corporations Act**).
- C The Manager and the Bidders have agreed, by executing the Scheme Implementation Agreement dated 31 December 2011 (**SIA**), to propose and implement a trust scheme pursuant to which the Bidders will acquire all of the units in the Fund, except certain of those held by the Bidders or their associates (**Scheme**).
- D Under the current drafting of the Constitution, if the Scheme becomes effective, the Manager will not be entitled to receive accrued fees for the period commencing on 1 January 2012 to the Implementation Date as the Manager's entitlement to fees is calculated on a half yearly basis and such fees are payable at the end of each quarter.
- E Subject to the Scheme becoming effective, the Manager proposes to amend the Constitution to enable the payment of the fees referred to in Recital D, calculated on the basis set out in Schedule 1 of this deed.
- F Under clause 22 of the Constitution, subject to the Corporations Act, the Manager may modify, repeal or replace the Constitution by a supplemental deed made by the Manager.
- G Section 601GC(1)(a) of the Corporations Act provides that the Constitution may be modified by special resolution of the Members of the Fund.
- H At a meeting held on [15 March] 2012 convened in accordance with the Corporations Act and clause 15 of the Constitution, the Members of the Fund approved certain resolutions, including a special resolution to make the amendments to the Constitution contained in this deed.
- I Pursuant to section 601GC(2) of the Corporations Act, the amendments to the Constitution set out in this deed cannot take effect until the amendments have been lodged with ASIC.

## The parties agree

---

### 1 Defined terms and interpretation

#### 1.1 Definitions

In this deed, including the Recitals, the following definitions apply unless the context otherwise requires.

**Bidders** means Reco, PSP and CHPT, and each of Reco, PSP and CHPT is a **Bidder**.

**CHPT** means Charter Hall Funds Management Limited (ABN 31 082 991 786) in its capacity as responsible entity of the Charter Hall Property Trust (ARSN 113 339 147) of Level 11, 333 George Street, Sydney, New South Wales, 2000.

**Effective Time** means the date and time on which the Scheme becomes effective by lodgement with ASIC under section 601GC(2) of the Corporations Act of a supplemental deed containing modifications to the Constitution to give effect to the Scheme.

**Implementation Date** has the meaning given in the SIA.

**Member** means a person who is registered in the Register as the holder of one or more Units from time to time.

**PSP** means Public Sector Pension Investment Board of 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8.

**Reco** means Reco Ambrosia Pte Ltd of 168 Robinson Road, #37-01, Capital Tower, Singapore 068912.

**Register** means the register of members kept by the Manager under the Corporations Act.

#### 1.2 Interpretation

Clauses 27.2 (**Interpretation**) and 22.2 (**Statutory requirements**) of the Constitution apply to this deed as if set out in this deed.

#### 1.3 Benefit of this deed

This deed is made by the Manager with the intent that the benefit of this deed shall enure to the benefit of Members, jointly and severally.

---

### 2 Amendments to Constitution

Subject to the Scheme becoming effective at the Effective Time, on and from the date a copy of this deed is lodged with ASIC under section 601GC(2) of the Corporations Act, the Constitution is amended in the manner set out in Schedule 1 of this deed.

---

### 3 No resettlement

The Manager confirms that it is not by this deed intending to:

- (a) settle or re-declare the trust declared under the Constitution; or

## Attachment C - Supplemental Deed (RE Fees)

- (b) cause the transfer, vesting or accruing of any property comprising the assets of the Fund in any person.

---

### 4 Governing law and jurisdiction

This deed is governed by the laws of New South Wales and the Manager submits to the non-exclusive jurisdiction of courts exercising jurisdiction there.

---

## Execution page

**Executed and delivered as a Deed Poll** in Sydney.

---

Executed as a deed in accordance with section  
127 of the Corporations Act 2001 by **Charter  
Hall Office Management Limited** in its  
capacity as responsible entity of the Charter Hall  
Office REIT:

---

Signature of director

---

Signature of director/secretary

---

Name of director (print)

---

Name of director/secretary (print)



### Schedule 1 — Amendments to the Constitution of the Charter Hall Office REIT

The Constitution is amended as follows:

- 1 By inserting the following definitions in alphabetical order in clause 27.1:

**Interim Relevant Period** has the meaning given in clause 19.2AA(b).

**March Payment** has the meaning given in clause 19.2A(b)

**Relevant Period** has the meaning given in clause 19.2A.

**\$US** means the lawful currency of the United States of America.

**US Assets** means the "Properties", as defined in the US Sale Contract.

**US Asset Purchaser** means BCSP VI Portfolio Acquisition LLC.

**US Asset Vendors** means the entities comprising the "Seller" under the US Sale Contract.

**US Sale Contract** means the Purchase and Sale Agreement dated 2 August 2011 (as amended from time to time including by a First Amendment to Purchase and Sale Agreement, dated 22 September 2011) between the US Asset Vendors and the US Asset Purchaser.

- 2 By inserting new clauses 19.2A and 19.2AA after clause 19.2 as follows:

19.2A Subject to the Scheme becoming effective at the Effective Time, the Manager's entitlement to fees for managing the Trust for the period from 1 January 2012 to the Implementation Date ("**Relevant Period**") will be:

(a) in the event that the Effective Time is before 31 March 2012:

- (i) and the Implementation Date occurs on or before 31 March 2012, calculated in accordance with clause 19.2A(c) and the Manager will have no entitlement to fees for managing the Trust for that period under clause 19.1 or clause 19.2; or
- (ii) and the Implementation Date is after 31 March 2012, calculated in accordance with clause 19.2A(c) and the Manager will have no entitlement to fees for managing the Trust for the Relevant Period under clause 19.1 or clause 19.2 but will be entitled to an interim payment on 31 March 2012 in accordance with clause 19.2AA(b); and

(b) in the event that the Effective Time is after 31 March 2012, calculated in accordance with 19.2A(c) and if a payment has been made under clause 19.1 and clause 19.2 with respect to the Quarter ending 31 March 2012 ("**March Payment**"), subject to clause 19.2AA(c).

- (c) The Manager's entitlement to fees under this clause 19.2A is calculated by first determining the fees the Manager is entitled to for the Relevant Period on a pro rata daily basis, by reference to the value of the Assets of the Trust as at 31 December 2011. This figure is then adjusted to account for any US Assets sold during the Relevant Period. This is done in accordance with following formula:

$$Fees = \frac{n}{366} (4,500,000 + 0.004A) - \frac{1}{366} (0.004Ca + 0.004D\beta + \dots + 0.004Z\gamma)$$

Where:

$n$  = the number of days in the Relevant Period

$A$  = the value of Assets of the Trust over \$1 billion as at 31 December 2011

$\{C, D, \dots, Z\}$  = the value as at 31 December 2011 of the US Asset sold, calculated in Australian dollars using the exchange rate as at 31 December 2011 of \$US 1.021:A\$ 1.000, where  $\{\alpha, \beta, \dots, \gamma\}$  = the number of days in the Relevant Period that the Asset is not owned

- 19.2AA (a) Subject to this clause 19.2AA, the aggregate amount of fees calculated under clause 19.2A is payable to the Manager on the Implementation Date.
- (b) If clause 19.2A(a)(ii) applies, the Manager will be entitled to an interim payment for managing the Trust for the period from 1 January 2012 to 31 March 2012 ("**Interim Relevant Period**"). The interim payment will be payable on 31 March 2012 and calculated in accordance with the formula under clause 19.2A(c), replacing all references to Relevant Period with Interim Relevant Period. Any fee paid to the Manager under this clause 19.2AA(b) in respect of the Interim Relevant Period will represent a part payment on account for the fee payable under clause 19.2AA(a).
- (c) If clause 19.2A(b) applies:
- (i) and the March Payment exceeds the fee calculated under clause 19.2A(c), the Manager will be required to repay on the Implementation Date the amount by which the March Payment exceeds the fees calculated under clause 19.2A(c); or
  - (ii) and the March Payment is less than the fee calculated under 19.2A(c), the March Payment will be deemed to be a partial payment of the aggregate amount of fees payable to the Manager on the Implementation Date under clause 19.2AA.

Allens Arthur Robinson 

## Bidder Deed Poll

Reco Ambrosia Pte Ltd  
Public Sector Pension Investment Board  
Charter Hall Funds Management Limited in its  
capacity as responsible entity of the Charter Hall  
Property Trust

Allens Arthur Robinson  
Level 28  
Deutsche Bank Place  
Corner Hunter and Phillip Streets  
Sydney NSW 2000  
Tel +61 2 9230 4000  
Fax +61 2 9230 5333  
[www.aar.com.au](http://www.aar.com.au)

© Copyright Allens Arthur Robinson, Australia 2010

## Bidder Deed Poll

Allens Arthur Robinson



Date

10 February 2012

By

1. **Reco Ambrosia Pte Ltd** of 168 Robinson Road, #37-01, Capital Tower, Singapore 068912 (*Reco*);
2. **Public Sector Pension Investment Board** of 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8 (*PSP*);
3. **Charter Hall Funds Management Limited** ABN 31 082 991 786 in its capacity as responsible entity of the Charter Hall Property Trust ARSN 113 339 147 of Level 11, 333 George Street, Sydney, New South Wales, 2000 (*CHPT*),

(In this Deed Poll, each of Reco, PSP and CHPT is a *Bidder* and they are collectively the *Bidders*.)

In favour  
of

Each Scheme Participant

Recitals

- A The Bidders, Charter Hall and the Escrow Agent have entered into a Scheme Implementation Agreement dated 31 December 2011 with Charter Hall Office Management Limited (ACN 006 765 206) (*CHOML*) in its capacity as responsible entity of Charter Hall Office REIT (ARSN 093 016 838), as amended from time to time (the *SIA*).
- B CHOML has agreed in the SIA to propose the Scheme, pursuant to which, subject to the satisfaction or (if applicable) waiver of certain conditions, the Bidders will acquire the Scheme Units from Scheme Participants, in their Specified Acquisition Proportions, in exchange for the Scheme Consideration.
- C In accordance with the SIA, each Bidder is entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Participants that it will observe and perform the obligations attributed to it under the Scheme and imposed on it under the SIA.

It is declared as follows.

# Bidder Deed Poll

Allens Arthur Robinson



## 1. Definitions and Interpretation

### 1.1 Definitions

Terms defined in the SIA have the same meaning in this Deed Poll, unless the context requires otherwise.

References in this Deed Poll to the **SIA** mean the SIA as amended from time to time.

### 1.2 Interpretation

- (a) The provisions of clause 1.2 of Schedule 1 to the SIA form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this agreement' in that clause are references to 'this Deed Poll'.
- (b) Any obligation on or liability of a Bidder under this Deed Poll is an obligation or liability, as the case may be, of that Bidder alone, and the other Bidders will have no responsibility whatsoever for any such obligation or liability.

## 2. Nature of Deed Poll

Each Bidder acknowledges and agrees that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints CHOML and each of its directors and officers as the Scheme Participant's agent and attorney to enforce this Deed Poll against that Bidder on behalf of that Scheme Participant.

## 3. Condition Precedent and Termination

### 3.1 Condition precedent

Each Bidder's obligations under this Deed Poll are subject to the Supplemental Deed becoming Effective.

### 3.2 Termination

The obligations of each Bidder under this Deed Poll will automatically terminate on termination of the SIA in accordance with its terms.

### 3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2 then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) each Bidder is released from its obligations under this Deed Poll, except those obligations under clause 7.6; and
- (b) each Scheme Participant retains any rights, powers or remedies that Scheme Participant has against each Bidder in respect of any breach by that Bidder of its

obligations under this Deed Poll that occurred before termination of this Deed Poll.

## 4. Compliance with Scheme Obligations

---

Each Bidder covenants in favour of each Scheme Participant that it will observe and perform all obligations attributed to it under the Scheme and imposed on it under the SIA including, without limitation, the obligation to provide or procure the provision of its Specified Acquisition Proportion of the Scheme Cash Consideration in accordance with the terms of the Scheme.

## 5. Representations and Warranties

---

Each Bidder makes the following representations and warranties in favour of each Scheme Participant:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the power to enter into and perform its obligations under this Deed Poll and to carry out the transactions that this Deed Poll contemplates;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll;
- (d) this Deed Poll is a valid and binding obligation of it and is enforceable against it in accordance with its terms;
- (e) it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for the winding up, dissolution or termination of it or for the appointment of a liquidator, receiver, administrator, or similar officer over any or all of its assets; and
- (f) the execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
  - (i) any law, judgment, ruling, order or decree binding on it; or
  - (ii) its constitution.

## 6. Continuing Obligations

---

This Deed Poll is irrevocable and, in respect of each Bidder, remains in full force and effect until the earlier of:

- (a) that Bidder having fully performed its obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.2.



### Bidder Deed Poll

Allens Arthur Robinson



#### 7. General

##### 7.1 Notices

Any notice, demand, consent or other communication (a **Notice**) given or made to a Bidder (the **Recipient**) under or in connection with this Deed Poll:

- (a) must be in writing and signed by a person duly authorised by the sender;
- (b) must be delivered to the Recipient by pre-paid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number below (as applicable) or the address or fax number last requested by the Recipient in writing to the sender:

##### **Reco**

Attention: Cai Wenzheng, Esther Teo

Address: 168 Robinson Road, #37-01, Capital Tower, Singapore 068912

Fax: +65 6889 6869

(for legal notices) with an additional copy to: c/o Government of Singapore Investment Corporation Pte Ltd, 168 Robinson Road, #37-01, Capital Tower, Singapore 068912, Attention: General Counsel (by airmail)

##### **PSP**

Attention: First Vice President, Real Estate Investments; Copy to: First Vice President and Chief Legal Officer 168 Robinson Road, #37-01, Capital Tower, Singapore 068912

Address: 1250, Rene-Levesque Blvd West, Suite 900, Montreal, Quebec, Canada H3B 4W8

Fax: 514-937-0390

with an additional copy to: c/o Government of Singapore Investment Corporation Pte Ltd, 168 Robinson Road, #37-01, Capital Tower, Singapore 068912, Attention: General Counsel (by airmail)

##### **CHPT**

Attention: General Counsel - Charter Hall Group

Address: Level 11, 333 George Street, Sydney, NSW 2000 +65 6889 6869

Fax: +61 2 8908 4090

with an additional copy to: with an additional copy to: Bart Price, Senior Corporate Finance Manager  
Bart.Price@charterhall.com.au (by email)

- (c) will be taken to be duly given or made:
  - (i) in the case of delivery in person, when delivered;
  - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and

- (iii) in the case of fax, on receipt by the sender of a transmission control report from the dispatching machine showing the relevant number of pages and the correct destination fax machine number or name of recipient and indicating that the transmission has been made without error,

but if the result is that a Notice would be taken to be given or made on a day that is not a business day in the place to which the Notice is sent or is later than 5pm (local time) it will be taken to have been duly given or made at the commencement of business on the next business day in that place.

## 7.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by a Bidder or by any Scheme Participant operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

## 7.3 Remedies cumulative

The rights, powers and remedies of each Bidder and of each Scheme Participant under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

## 7.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) prior to the First Judicial Advice Date, the amendment or variation is agreed to in writing by CHOML and each Bidder;
- (b) on or after the First Judicial Advice Date:
  - (i) the amendment or variation is agreed to in writing by CHOML, and each Bidder;
  - (ii) the court indicates that the variation or amendment would not of itself preclude the giving of the Second Judicial Advice; and
  - (iii) each Bidder enters into a further deed poll in favour of the Scheme Participants giving effect to that amendment or variation; and
- (c) on or after the Second Judicial Advice Date:
  - (i) the amendment or variation is agreed to in writing by CHOML, each Bidder and the CQO Committee; and
  - (ii) each Bidder enters into a further deed poll in favour of the Scheme Participants giving effect to that amendment or variation.

### Bidder Deed Poll

Allens Arthur Robinson



#### 7.5 Assignment

The rights and obligations of each Bidder and of each Scheme Participant under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so.

#### 7.6 Costs and stamp duty

- (a) Each Bidder must bear its own costs arising out of the negotiation, preparation and execution of this Deed Poll.
- (b) Each Bidder must pay its Specified Acquisition Proportion of any stamp duty (including any related fines, penalties and interest) payable on or in connection with the transfer of Scheme Units under the Scheme, this Deed Poll and any instrument executed under or any transaction evidenced by this Deed Poll. Each Bidder must indemnify each Scheme Participant on demand for any failure to comply with this clause 7.6(b).

#### 7.7 Governing law and jurisdiction

This Deed Poll is governed by the laws of New South Wales. Each Bidder submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

### 8. Trustee Limitation of Liability

#### 8.1 Capacity

Charter Hall Funds Management Limited (the **Trustee**) enters into this Deed only in its capacity as trustee of the Charter Hall Property Trust (the **Trust**) and in no other capacity.

#### 8.2 Limitation of liability

Subject to clause 8.3, and despite any other provisions of this Deed, a liability arising under or in connection with this Deed is limited and can be enforced against the Trustee only to the extent to which the Trustee, having sought indemnification, is actually indemnified in respect of that liability out of the assets of the Trust. No person will be entitled to:

- (a) claim from or commence proceedings against the Trustee in respect of any liability under this Deed in any capacity other than as trustee for the Trust;
- (b) seek the appointment of a receiver, receiver and manager, liquidator, an administrator or any similar office-holder to the Trustee, or prove in any liquidation, administration or arrangement of or affecting the Trustee, except in relation to the property of the Trust; or
- (c) enforce or seek to enforce any judgment in respect of a liability under this Deed against the Trustee in any capacity other than as trustee of the Trust.

### **8.3 Qualification to limitation**

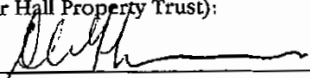
The limitation in clause 8.2 does not apply to any obligation or liability of the Trustee to the extent to which there is, in respect of that obligation or liability, whether under the Trust's trust deed or by operation of law, a reduction in the extent of the Trustee's indemnity, or a loss of the Trustee's right to indemnification, out of the assets of the Trust as a result of any fraud, breach of trust or breach of duty by the Trustee.

## Attachment D - Bidder Deed Poll

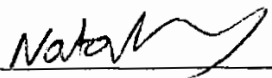
### Bidder Deed Poll

Allens Arthur Robinson 

**Executed** as a deed in accordance with  
section 127 of the *Corporations Act 2001* by  
**Charter Hall Funds Management Limited**  
(in its capacity as responsible entity of the  
Charter Hall Property Trust):


  
\_\_\_\_\_  
Director Signature

David Harrison  
\_\_\_\_\_  
Print Name

  
\_\_\_\_\_  
Director/Secretary Signature

NATALIS ALLEN  
\_\_\_\_\_  
Print Name

## Bidder Deed Poll

Allens Arthur Robinson 

Executed as a deed for Public Section  
Pension Investment Board by its  
authorised representative:



Authorised representative

Marc Lacourcière  
Print Name  
Vice President and Chief Legal Officer




Authorized representative  
JÉRÔME POULIN  
VICE PRESIDENT, REAL ESTATE  
Print Name



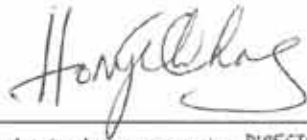
## Attachment D - Bidder Deed Poll

Bidder Deed Poll

Allens Arthur Robinson 

Executed and delivered as a Deed in Sydney, Montreal and Singapore.

Executed as a deed for **Reco Ambrosia Pte Ltd** by its authorised representative:



Authorised representative DIRECTOR.

Ho NYUK CHONG

Print Name



Witness DIRECTOR.

JULIAN CHUA HIANG LIAN

Print Name



[This page is intentionally left blank]

Allens Arthur Robinson 

## Escrow Agent Deed Poll

Charter Hall Escrow Agent Pty Limited

Allens Arthur Robinson  
Level 28  
Deutsche Bank Place  
Corner Hunter and Phillip Streets  
Sydney NSW 2000  
Tel +61 2 9230 4000  
Fax +61 2 9230 5333  
[www.aar.com.au](http://www.aar.com.au)

© Copyright Allens Arthur Robinson, Australia 2010

# Escrow Agent Deed Poll

Allens Arthur Robinson



<b>Date</b>	9 February 2012
<b>By</b>	<b>Charter Hall Escrow Agent Pty Limited ACN 111 041 564</b> of Level 11, 333 George Street, Sydney, New South Wales, 2000 (the <i>Escrow Agent</i> )
<b>In favour of</b>	<b>Each Scheme Participant</b>
<b>Recitals</b>	
A	The Bidders, Charter Hall and the Escrow Agent have entered into a Scheme Implementation Agreement dated 31 December 2011 with Charter Hall Office Management Limited (ACN 006 765 206) ( <i>CHOML</i> ) in its capacity as responsible entity of Charter Hall Office REIT (ARSN 093 016 838), as amended from time to time (the <i>SIA</i> ).
B	CHOML has agreed in the SIA to propose the Scheme, pursuant to which, subject to the satisfaction or (if applicable) waiver of certain conditions, the Bidders will acquire the Scheme Units from Scheme Participants, in their Specified Acquisition Proportions, in exchange for the Scheme Consideration.
C	In accordance with the SIA, the Escrow Agent is entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Participants that it will observe and perform the obligations attributed to it under the Scheme and imposed on it under the SIA.

It is declared as follows.

## 1. Definitions and Interpretation

### 1.1 Definitions

Terms defined in the SIA have the same meaning in this Deed Poll, unless the context requires otherwise.

References in this Deed Poll to the SIA mean the SIA as amended from time to time.

### 1.2 Interpretation

The provisions of clause 1.2 of Schedule 1 to the SIA form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this agreement' in that clause are references to 'this Deed Poll'.

### Escrow Agent Deed Poll

Allens Arthur Robinson



#### 2. Nature of Deed Poll

The Escrow Agent acknowledges and agrees that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints CHOML and each of its directors and officers as the Scheme Participant's agent and attorney to enforce this Deed Poll against the Escrow Agent on behalf of that Scheme Participant.

#### 3. Condition Precedent and Termination

##### 3.1 Condition precedent

The Escrow Agent's obligations under this Deed Poll are subject to the Supplemental Deed becoming Effective.

##### 3.2 Termination

The obligations of the Escrow Agent under this Deed Poll will automatically terminate on termination of the SIA in accordance with its terms.

##### 3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2 then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) the Escrow Agent is released from its obligations under this Deed Poll, except those obligations under clause 7.6; and
- (b) each Scheme Participant retains any rights, powers or remedies that Scheme Participant has against the Escrow Agent in respect of any breach by the Escrow Agent of its obligations under this Deed Poll that occurred before termination of this Deed Poll.

#### 4. Compliance with Scheme Obligations

- (a) The Escrow Agent covenants in favour of each Scheme Participant that it will observe and perform all obligations attributed to it under the Scheme and imposed on it under the SIA including, without limitation, the obligation to establish, maintain and operate the Escrow Account and to provide or procure the provision of the Scheme Contingent Consideration in accordance with, and subject to, the terms of the Scheme and SIA (which terms include the CQO Committee notifying the Escrow Agent in writing of the relevant Scheme Contingent Consideration Amount to be provided).
- (b) Subject to the proviso below:
  - (i) despite any other provision of this Deed Poll or any other document, the Escrow Agent shall have no liability in respect of any amount due by it to any Scheme Participant except to the extent of the amounts available in the Escrow Account (as applicable) on the relevant payment date under clause 4.1(e) of the SIA; and

- (ii) each Scheme Participant unconditionally and irrevocably waives all Claims it may otherwise have against the Escrow Agent but for the operation of sub-paragraph (b)(i), and must not do or seek to do, and waives any rights it may have to do, any of the following things to the extent that doing any of these things would be inconsistent with the limitation of liability in sub-paragraph (b)(i):
  - (A) obtain a judgment for the payment of money or damages by the Escrow Agent;
  - (B) issue any demand under section 459E(1) of the Corporations Act (or any analogous provision under any other law) against the Escrow Agent;
  - (C) apply for the winding up of the Escrow Agent;
  - (D) levy or enforce any distress or other execution to, on, or against any assets of the Escrow Agent;
  - (E) apply for the appointment by a court of a receiver to any of the assets of the Escrow Agent;
  - (F) exercise or seek to exercise any set-off or counterclaim against the Escrow Agent; or
  - (G) commence proceedings in relation any of the above,

where the proviso is that the Escrow Agent's liability in respect of the Scheme Contingent Consideration will not be limited in the manner contemplated in this clause 4(b) if, following implementation of the Scheme, the Escrow Agent uses (or agrees to use) any of the funds in the Escrow Account for any purpose other than the making of a payment referred to in clauses 4.1(e), 4.2, 4.3 or 4.8 of the SIA, and this use of the funds has been Finally Determined.

Each Scheme Participant and CHOML agrees that the waiver provided in this clause 4(b) may be pleaded as an absolute bar to any Claim commenced now or taken at any time by or on behalf of any CQO Unitholder against the Escrow Agent.

- (c) The Escrow Agent is not responsible to the Scheme Participants for, nor will it be liable in respect of:
  - (i) any failure by another party to perform its obligations under this agreement or the Bidder Deed Poll; or
  - (ii) any action taken or omitted to be taken by the Escrow Agent under this agreement, except any fraud or wilful misconduct of any of its officers or employees, where such conduct has been Finally Determined to have occurred.
- (d) Each Scheme Participant acknowledges that the limitation provisions in clauses 4(b) and 4(c) must be enforced by CHOML upon written request received from the Escrow Agent.

# Escrow Agent Deed Poll

Allens Arthur Robinson



## 5. Representations and Warranties

The Escrow Agent makes the following representations and warranties in favour of each Scheme Participant:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the power to enter into and perform its obligations under this Deed Poll and to carry out the transactions that this Deed Poll contemplates;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll;
- (d) this Deed Poll is a valid and binding obligation of it and is enforceable against it in accordance with its terms;
- (e) it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for the winding up, dissolution or termination of it or for the appointment of a liquidator, receiver, administrator, or similar officer over any or all of its assets; and
- (f) the execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
  - (i) any law, judgment, ruling, order or decree binding on it; or
  - (ii) its constitution.

## 6. Continuing Obligations

This Deed Poll is irrevocable and, in respect of the Escrow Agent, remains in full force and effect until the earlier of:

- (a) the Escrow Agent having fully performed its obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.2.

## 7. General

### 7.1 Notices

Any notice, demand, consent or other communication (a *Notice*) given or made to the Escrow Agent (the *Recipient*) under or in connection with this Deed Poll:

- (a) must be in writing and signed by a person duly authorised by the sender;
- (b) must be delivered to the Recipient by pre-paid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number below or the address or fax number last requested by the Recipient in writing to the sender:

**Escrow Agent**

Attention: General Counsel - Charter Hall Group

Address: Level 11, 333 George Street, Sydney, NSW 2000+65 6889 6869





Fax: +61 2 8908 4090

with an additional copy to: with an additional copy to: Bart Price, Senior Corporate Finance Manager Bart.Price@charterhall.com.au (by email)

- (c) will be taken to be duly given or made:
- (i) in the case of delivery in person, when delivered;
  - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
  - (iii) in the case of fax, on receipt by the sender of a transmission control report from the dispatching machine showing the relevant number of pages and the correct destination fax machine number or name of recipient and indicating that the transmission has been made without error,

but if the result is that a Notice would be taken to be given or made on a day that is not a business day in the place to which the Notice is sent or is later than 5pm (local time) it will be taken to have been duly given or made at the commencement of business on the next business day in that place.

## 7.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by the Escrow Agent or by any Scheme Participant operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

## 7.3 Remedies cumulative

The rights, powers and remedies of the Escrow Agent and of each Scheme Participant under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

## 7.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) prior to the First Judicial Advice Date, the amendment or variation is agreed to in writing by CHOML and the Escrow Agent;
- (b) on or after the First Judicial Advice Date:
  - (i) the amendment or variation is agreed to in writing by CHOML and the Escrow Agent;
  - (ii) the court indicates that the variation or amendment would not of itself preclude the giving of the Second Judicial Advice; and
  - (iii) the Escrow Agent enters into a further deed poll in favour of the Scheme Participants giving effect to that amendment or variation; and

### Escrow Agent Deed Poll

Allens Arthur Robinson



- (c) on or after the Second Judicial Advice Date:
  - (i) the amendment or variation is agreed to in writing by CHOML, the Escrow Agent and the CQO Committee; and
  - (ii) the Escrow Agent enters into a further deed poll in favour of the Scheme Participants giving effect to that amendment or variation.

#### **7.5 Assignment**

The rights and obligations of the Escrow Agent and of each Scheme Participant under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so.

#### **7.6 Costs**

The Escrow Agent must bear its own costs arising out of the negotiation, preparation and execution of this Deed Poll.

#### **7.7 Governing law and jurisdiction**

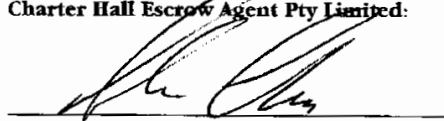
This Deed Poll is governed by the laws of New South Wales. The Escrow Agent submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

## Escrow Agent Deed Poll

Allens Arthur Robinson 

**Executed and delivered as a Deed** in Sydney

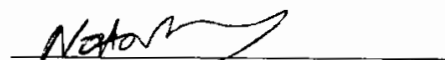
**Executed** as a deed in accordance with  
section 127 of the *Corporations Act 2001* by  
**Charter Hall Escrow Agent Pty Limited:**



Director Signature

**ANDREW JULIAN GLASS**

Print Name



Director/Secretary Signature

**NATALIE ALLEN**

Print Name

# Attachment F - Independent Expert's Report

## GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER  
1 FARRER PLACE SYDNEY NSW 2000  
GPO BOX 4301 SYDNEY NSW 2001  
T: +61 2 9324 4211 / F: +61 2 9324 4301  
www.grantsamuel.com.au

10 February 2012

The Independent Directors  
Charter Hall Office Management Limited as responsible entity for  
Charter Hall Office REIT  
Level 11, 333 George Street  
Sydney NSW 2000

Dear Independent Directors

### Bidders' Proposal

#### 1 Introduction

Charter Hall Office REIT ("CQO") is a listed real estate investment trust that invests in high grade office buildings. Charter Hall Office Management Limited ("CHOML"), a wholly owned subsidiary of Charter Hall Group is the responsible entity for the trust.

On 3 January 2012, the Independent Director Committee ("IDC") of CHOML announced that it had entered into a Scheme Implementation Agreement with Reco Ambrosia Pte Ltd ("Reco") (an affiliate of Government of Singapore Investment Corporation Pte Ltd), the Public Sector Pension Investment Board of Canada ("PSP") and a member of Charter Hall Group (collectively, the "Bidders") under which CQO unitholders other than the Bidders and their associates<sup>1</sup> ("scheme unitholders") would receive a cash payment of \$2.49 per CQO unit for the Australian portfolio (the "Proposal"). The cash payment of \$2.49 per CQO unit will comprise a payment of approximately \$1.84 per CQO unit from the Bidders and a special distribution of approximately \$0.65 per CQO unit from CHOML. All CQO unitholders will also receive:

- one or more special distributions of the net proceeds from the sale of the United States portfolio and any accrued earnings from the United States portfolio from 1 January 2012 up to the scheme implementation date (subject to certain amounts being withheld as necessary to meet contingent liabilities predominantly related to CQO's offshore subsidiaries); and
- payment of any net proceeds from the sale of the United States portfolio (including any accrued earnings) not distributed prior to the scheme implementation date which are not required to meet any realised contingent liabilities ("scheme contingent consideration"). CHOML expects that the majority of the scheme contingent consideration will be paid to CQO unitholders six months after the scheme implementation date.

All CQO unitholders who held CQO units as at 30 December 2011 will also receive the distribution for the six months ended 31 December 2011 of \$0.11 per CQO unit which is expected to be paid on or around 21 February 2012.

Under the Proposal, Charter Hall Group will continue to manage CQO on an unlisted basis with a similar fee structure and quantum had CQO remained listed on the Australian Stock Exchange.

The Proposal was the outcome of a series of discussions which commenced following receipt of an indicative, highly conditional, non-binding and confidential proposal from a consortium of global

<sup>1</sup> Other than the 5,218,676 CQO units held by PSP and the 1,295,000 CQO units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund, which will be acquired by the Bidders under the Proposal.

## GRANT SAMUEL



institutional investors (“initial conditional proposal”) to acquire all of the units in CQO other than those held by Charter Hall Group for an indicative price of \$2.39 cash per CQO unit (in addition to the expected return from the sale of the United States portfolio) on 26 August 2011. This proposal was subsequently increased to \$2.43 per CQO unit on 5 October 2011 and on 5 December 2011, the IDC advised that it had entered into a conditional agreement in relation to a proposal under which the cash payment would be \$2.49 per CQO unit.

The Proposal is to be implemented by way of a trust scheme under which the Bidders will acquire all of the CQO units other than certain of those held by the Bidders.

The Proposal has been unanimously recommended by the IDC in the absence of a superior proposal and subject to an independent expert providing an opinion that the Proposal is in the best interests of scheme unitholders.

The IDC has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Proposal is in the best interests of scheme unitholders. A copy of the report (including this letter) will accompany the Explanatory Memorandum to be sent to CQO unitholders by CHOML. This letter contains a summary of Grant Samuel’s opinion and main conclusions.

## 2 Opinion

**In Grant Samuel’s opinion, the Proposal is fair and reasonable to, and in the best interests of, scheme unitholders in the absence of a superior proposal.**

Passive holders of property investments such as CQO are usually valued based on net assets. The adjusted pro forma Australian unaudited net tangible assets (“NTA”) is \$1,226.9-1,262.9 million or \$2.49-2.56 per CQO unit. The cash payment under the Proposal of \$2.49 per CQO unit is within this range (albeit at the low end) and therefore the Proposal is fair. As the Proposal is fair it is also reasonable. As the Proposal is fair and reasonable, it is in the best interests of scheme unitholders.

The adjusted pro forma Australian unaudited NTA has been calculated based on unaudited financial information as at 31 December 2011. The cash payment under the Proposal is at the low end of the range of adjusted pro forma Australian unaudited NTA per CQO unit and movements in the pro forma Australian unaudited NTA as a result of the review of the financial statements by CQO’s auditors could result in the cash payment falling below the low end of this range. However, unless there was a substantial increase in the pro forma Australian NTA, it is likely that even if the Proposal was not fair it would still be reasonable. On this basis, the Proposal would continue to be in the best interests of scheme unitholders.

Alternative strategies by which CQO could realise value are unlikely to result in a better outcome for scheme unitholders.

G R A N T S A M U E L

■ ■ ■

## 3 Key Conclusions

- **The adjusted pro forma Australian unaudited NTA in the range \$1,226.9-1,262.9 million, equivalent to \$2.49-2.56 per CQO unit**

The adjustments to the pro forma Australian unaudited NTA are summarised below:

Adjusted Pro Forma Australian Unaudited Net Tangible Assets (\$ millions)		
	Low	High
<b>Pro forma Australian unaudited NTA as at 31 December 2011</b>	<b>1,275.5</b>	<b>1,275.5</b>
Movement in value of investment in No. 1 Martin Place Trust	(0.9)	(0.9)
Estimated distribution from 1 January 2012 to scheme implementation date	14.5	22.0
Capitalised borrowing costs	(4.7)	(4.7)
Capitalised overheads (including responsible entity fees)	(57.5)	(29.0)
<b>Adjusted pro forma Australian unaudited NTA</b>	<b>1,226.9</b>	<b>1,262.9</b>
Number of issued units (millions)	493.3	493.3
<b>Adjusted pro forma Australian unaudited NTA per CQO unit</b>	<b>\$2.49</b>	<b>\$2.56</b>

Valuations based on asset values are commonly adopted for real estate investment trusts ("REITs"). For these types of businesses, properties are generally carried on the balance sheet at market value. Each property in the Australian portfolio was independently valued as at 31 December 2011 (except for 171 Collins Street, Melbourne which is under construction and is shown at cost up to 31 December 2011). Other assets or liabilities that are not carried at market value are adjusted to reflect market value. The following adjustments were made to the pro forma Australian unaudited NTA as at 31 December 2011:

- the carrying value of CQO's 12.0% interest in the unlisted units in No.1 Martin Place Trust does not reflect the most recent valuation of No. 1 Martin Place, Sydney. An adjustment has been made to reflect the decline in value of No.1 Martin Place, Sydney as at 31 December 2011;
- CQO unitholders are entitled to receive the benefit of earnings generated by the Australian portfolio from 1 January 2012 until the scheme implementation date (expected to be 30 March 2012). However, under the Proposal, no distributions from the Australian portfolio will be paid to scheme unitholders subsequent to the distribution for the six months ended 31 December 2011. Therefore an adjustment has been made to reflect the estimated distribution for this period;
- borrowing costs capitalised for accounting purposes do not have a realisable value and therefore have been excluded in calculating the adjusted pro forma Australian unaudited NTA; and
- valuations based on net assets do not take into account the cost structure associated with a listed property investment vehicle. Corporate overheads are a cost of CQO's operating structure and include:
  - responsible entity fees, which would be payable as long as the Australian portfolio is externally managed. If the Australian portfolio was internally managed there would also be costs although the quantum of the costs would be likely to be considerably less. Responsible entity fees have been estimated to be in the range \$4.25-8.5 million; and
  - trust expenses, including professional fees, audit, tax, insurance and costs associated with being a listed entity. Any acquirer of 100% of CQO would be able to eliminate the costs associated with being a publicly listed entity and would be likely (if the acquirer had an existing presence in Australia) to be able to eliminate some of the other operating costs. Ongoing trust expenses have been estimated to be approximately \$3 million.

## GRANT SAMUEL



In Grant Samuel's view, it is appropriate to adjust the pro forma net assets of the Australian portfolio for the corporate costs associated with the trust structure. The adjustment is based on total corporate overheads (of \$7.25-11.5 million) capitalised at an EBIT multiple of 4-5 times.

The adjusted pro forma NTA represents the estimated realisable value of CQO's Australian portfolio assuming 100% was available to be acquired. REITs (and CQO in particular) are passive holders of a portfolio of properties and are quite different in character to operating businesses. There is no higher "control value" for these assets.

The adjusted pro forma Australian unaudited NTA of \$2.49-2.56 per CQO unit implies an exit yield<sup>2</sup> in the range 5.1-6.5%. This is at or below the range of exit yields implied by recent non-distressed control transactions in the Australian listed REIT sector of 6.0-8.6%. An exit yield in the lower end of the range is considered to be appropriate given the quality of the Australian portfolio, although this would be offset to some extent by its relatively smaller scale and limited growth opportunities. In addition, CQO has historically traded at relatively high yields. The exit yield implied by the adjusted pro forma Australian unaudited NTA of 5.1-6.5% compares to a CQO forecast distribution yield of 7.6% prior to the announcement of the initial conditional proposal (or 6.7% prior to the announcement of the sale of the United States portfolio).

The adjusted pro forma Australian unaudited NTA has been calculated based on unaudited financial information as at 31 December 2011. CHOML does not expect to release CQO's half year financial statements (which will have been subject to review by CQO's auditors) until 21 February 2012 (i.e. after the date of this report but prior to the trust scheme meeting ("meeting")). Unless there was a substantial increase in the pro forma Australian NTA as a result of the review of the financial statements by CQO's auditors, it is likely that even if the Proposal was no longer fair, it would still be reasonable for the reasons set out below. On this basis, the Proposal would continue to be in the best interests of scheme unitholders.

- **The cash payment under the Proposal of \$2.49 implies premiums/(discounts) and yields that are not inconsistent with, or compare favourably to, the available market evidence**

The cash payment under the Proposal of \$2.49 per CQO unit<sup>3</sup> implies the following market parameters:

Implied Parameters		
	Parameter	Premium/ (discount) and Yield
<b>Premium to CQO trading price (based on combined payment of \$3.60)</b>		
Closing price on 26 August 2011	\$2.90	24.1%
VWAP <sup>4</sup> for 1 week ended 26 August 2011	\$2.83	27.2%
VWAP for 1 month ended 26 August 2011	\$2.93	22.9%
VWAP for 3 months ended 26 August 2011	\$3.13	15.0%
VWAP for 6 months ended 26 August 2011	\$3.37	6.8%
<b>Premium/(discount) to NTA per CQO unit at 31 December 2011</b>		
Australian portfolio pro forma NTA	\$2.59	(3.9)%
<b>Exit yield</b>		
Forecast distribution for the year ending 30 June 2012 <sup>5</sup>	13.1-16.2¢	5.3-6.5%

<sup>2</sup> The exit yield is the distribution yield implied by the cash payment under the Proposal. It is calculated as the forecast distribution for the Australian portfolio divided by the cash payment under the Proposal.

<sup>3</sup> Other than the premium to CQO trading prices, which is based on the cash payment under the Proposal of \$2.49 per CQO unit plus the estimated net proceeds from the sale of the United States portfolio of \$1.11 per CQO unit to give a combined payment of \$3.60 per CQO unit. The calculation of the estimated net proceeds from the sale of the United States portfolio is set out in more detail in footnote 32 to the full report.

<sup>4</sup> VWAP is the volume weighted average price.

<sup>5</sup> The forecast distribution for the year ending 30 June 2012 for the Australian portfolio is based on management's guidance for operating earnings of 17.5-18.0 cents per CQO unit and CQO's target distribution payout ratio of 75-90%.



## Attachment F - Independent Expert's Report

### GRANT SAMUEL



The Proposal gives scheme unitholders the opportunity to realise their investment in the Australian portfolio at:

- a significant premium to pre-bid trading prices. The combination of the cash payment under the Proposal of \$2.49 per CQO unit plus the estimated net proceeds from the sale of the United States portfolio of \$1.11 per CQO unit (a combined payment of \$3.60 per CQO unit) represents a premium to the recent trading price of CQO units:
  - the premium to trading prices in the month prior to the announcement of the initial conditional proposal is in the range 23-27%, although the CQO unit price at the time in part reflected uncertainty associated with the sale of the United States portfolio; and
  - the premiums over trading prices for longer periods (of 3-6 months prior to the announcement of the initial conditional proposal) are lower at 7-15% and are more consistent with the premiums over pre-bid trading prices usually observed in acquisitions of listed REITs, although the CQO unit price over these periods also reflects the impact of the buying of CQO units by a number of United States based hedge funds over this period.

CQO units have only traded above \$3.60 very briefly in the 12 months prior to the announcement of the initial conditional proposal, on 16 trading days between 19 May 2011 and 23 June 2011, with the CQO unit price peaking at \$3.71 on 20 June 2011 (the VWAP on that date was \$3.67). The daily VWAP has only exceeded \$3.60 on 13 trading days over the same period;

- a relatively small discount to unadjusted pro forma Australian unaudited NTA of (3.9)%. This discount is not inconsistent with the pricing of recent Australian non-distressed listed REIT control transactions which, although limited in number, have taken place at a (discount)/premium to NTA in the range (4.3)-3.1%. The discount compares favourably to:
  - the discount to NTA at which other Australian listed office REITs are currently trading, which is in the range (11)-(16)%; and
  - the discount to NTA at which CQO units traded prior to the announcement of the conditional indicative proposal. This discount was in the range (7)-(43)% in the 12 months prior to the announcement and (22.9)% immediately prior to the announcement (although the relatively larger discount to NTA immediately prior to the announcement in part reflects the uncertainty associated with the sale of the United States portfolio at that time); and
- an attractive exit yield of 5.3-6.5% compared to other recent Australian non-distressed listed REIT control transactions which have taken place at exit yields in the range 6.0-8.6%. An exit yield in the lower end of the range would be appropriate given the size, quality and growth opportunities of the Australian portfolio.

■ **None of the alternatives realistically available is likely to result in a better outcome for scheme unitholders**

In weighing up any offer, scheme unitholders need to have regard to the alternatives that are realistically available to CQO:

- CQO unitholders might ultimately realise greater value by deferring the sale of the Australian portfolio but the quantum and timing of any such gain is uncertain. The Proposal provides the certainty of cash in the short term at a significant premium to pre-bid trading prices (when combined with the expected net proceeds from the sale of the United States portfolio). Assuming a continuation of current market conditions (i.e. the slower than expected recovery in the Australian office property market and the impact of the ongoing European sovereign debt crisis on Australian equities markets and consumer and business sentiment), the CQO unit price would be expected to fall in the absence of the Proposal or a similar transaction.

Scheme unitholders that wish to retain an exposure to the Australian office property sector and obtain the benefit from any eventual upswing in the office property cycle can exit the Australian

## GRANT SAMUEL



portfolio at a relatively small discount to NTA and reinvest in other listed office REITs that are trading at more significant discounts to NTA (although these opportunities are limited);

- a wind up of the Australian portfolio is unlikely to realise a return to scheme unitholders in excess of the cash payment under the Proposal as it would involve costs and some risks:
  - sale of the portfolio is likely to take a considerable amount of time given its size (18 properties), nature (including the existence of pre-emptive rights under joint venture agreements for some of the most attractive assets) and current market conditions;
  - it may be difficult to sell the Australian portfolio in a single line given its size and nature. If the Australian portfolio was sold on a piecemeal basis, the attractive properties may sell relatively easily and at strong prices but CQO may also be left with a lower quality, more difficult to sell, “rump” and it would be a very committed seller with a weakened negotiating position; and
  - some selling costs, break fees and taxes would be payable in the sale of the Australian portfolio and the winding up of the trust which would reduce the net proceeds from sale; and
- since the announcement of the initial conditional proposal on 29 August 2011, there has been an opportunity for any other interested party to make a competing offer. The IDC’s advisers undertook an international process to seek alternative proposals but no alternative offer has been made at the date of this report. Although a competing offer may be made at any time before the meeting, there appears little likelihood that an alternative bidder will make a more attractive offer for the Australian portfolio.

### ■ There are a number of other factors for scheme unitholders to consider

There are other considerations for scheme unitholders:

- if the Proposal is implemented, there will be tax consequences for scheme unitholders. The portion of the cash payment under the Proposal that is paid as a special distribution may need to be included in a scheme unitholder’s assessable income. Scheme unitholders may also realise a capital gain or a capital loss on disposal of their CQO units. The quantum of any gain or loss will depend on the cost base of their CQO units (and any adjustments made to the cost base), the length of time the units have been held, the position the scheme unitholder chooses to adopt for dealing with the amount of the net proceeds from the sale of the United States portfolio withheld to meet contingent liabilities, whether the CQO units are held on capital or revenue account and whether the scheme unitholder is an Australian resident for tax purposes;
- under the Proposal, Charter Hall Group will continue to manage the Australian portfolio under a new management agreement. Based on the information provided to Grant Samuel, the new management agreement which has been negotiated between Charter Hall Group and the Consortium appears to have a similar fee structure to the existing arrangements and does not result in any diversion of value from scheme unitholders to Charter Hall Group;
- if the Proposal is implemented, there will be a delay in receipt of a portion of the net proceeds from the sale of United States portfolio which will be withheld for at least six months to meet potential contingent liabilities and there will be costs associated with these arrangements. However, the impact of these arrangements on scheme unitholders is estimated to be less than \$0.01 per CQO unit (on a worst case scenario) and is not material in the context of the Proposal; and
- CQO will incur transaction costs of approximately \$3.2 million prior to the meeting. If the Proposal is not implemented, CQO will meet these costs as a stand alone entity. Furthermore, in certain circumstances, CQO may also be liable to pay a break fee of \$11 million to the Bidders.

While scheme unitholders should be aware of these considerations, they do not change Grant Samuel’s opinion that the Proposal is fair and reasonable to, and in the best interests of, scheme unitholders in the absence of a superior proposal.

## Attachment F - Independent Expert's Report

GRANT SAMUEL

■ ■ ■

#### 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual scheme unitholders. Accordingly, before acting in relation to their investment, scheme unitholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Scheme unitholders should read the Explanatory Memorandum issued by CHOML in relation to the Proposal.

Voting for or against the Proposal is a matter for individual scheme unitholders based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Scheme unitholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

*Grant Samuel & Associates*

GRANT SAMUEL

■ ■ ■

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY



**Financial Services Guide  
and  
Independent Expert's Report  
in relation to the Bidders' Proposal**

**Grant Samuel & Associates Pty Limited**  
(ABN 28 050 036 372)

**10 February 2012**

## GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

### Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Charter Hall Office Management Limited as responsible entity for the Charter Hall Office REIT in relation to the proposed acquisition by a consortium comprising Reco Ambrosia Pte Ltd, the Public Sector Pension Investment Board of Canada and Charter Hall Group of all of the units in the Charter Hall Office REIT other than certain of those held by the consortium ("the CQO Report"), Grant Samuel will receive a fixed fee of \$250,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 5.3 of the CQO Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the CQO Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 5.3 of the CQO Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with CQO, Charter Hall Group, CHOML, Reco or PSP or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that it prepared an independent review of alternative strategies for the independent directors of CHOML as responsible entity for CQO in July 2011. Grant Samuel received a fixed fee of \$270,000 plus reimbursement of out of pocket expenses for this assignment.*

*Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*

*Grant Samuel will receive a fixed fee of \$250,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the CQO Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the CQO Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS LICENCE NO 240985

## Attachment F - Independent Expert's Report

GRANT SAMUEL



### Table of Contents

1	Details of the Proposal.....	1
2	Scope of the Report.....	4
2.1	Purpose of the Report .....	4
2.2	Basis of Evaluation .....	4
2.3	Sources of the Information .....	6
2.4	Limitations and Reliance on Information .....	6
3	Profile of Charter Hall Office REIT .....	9
3.1	Background.....	9
3.2	Trust Structure.....	10
3.3	Key Arrangements .....	11
3.4	Australian Portfolio.....	12
3.5	Earnings and Distributions.....	15
3.6	Financial Position .....	18
3.7	Capital Structure and Ownership.....	19
3.8	Unit Price Performance .....	21
4	Evaluation of the Proposal.....	24
4.1	Conclusion.....	24
4.2	Net Asset Value and Fairness .....	25
4.3	Reasonableness .....	30
4.4	Unitholder Decision.....	39
5	Qualifications, Declarations and Consents.....	40
5.1	Qualifications .....	40
5.2	Disclaimers.....	40
5.3	Independence .....	40
5.4	Declarations .....	41
5.5	Consents .....	41
5.6	Other.....	41

### Appendix

- 1 Market Evidence – Listed REITs
- 2 Market Evidence – Management Rights



GRANT SAMUEL

■ ■ ■

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

GRANT SAMUEL



### 1 Details of the Proposal

On 3 January 2012, the Independent Director Committee (“IDC”) of Charter Hall Office Management Limited (“CHOML”), a wholly owned subsidiary of Charter Hall Group and responsible entity of Charter Hall Office REIT (“CQO”), announced that CHOML had entered into a Scheme Implementation Agreement (“SIA”) with Reco Ambrosia Pte Ltd (“Reco”) (an affiliate of Government of Singapore Investment Corporation Pte Ltd), the Public Sector Pension Investment Board of Canada (“PSP”) and a member of Charter Hall Group (collectively, the “Bidders”) under which CQO unitholders other than the Bidders and their associates<sup>1</sup> (“scheme unitholders”) would receive a cash payment of \$2.49 per CQO unit (representing the cash payment for the Australian portfolio and in addition to the expected return of the net proceeds from the sale of the United States portfolio) (the “Proposal”).

The SIA was the outcome of a series of discussions which commenced following receipt of an indicative, highly conditional, non-binding and confidential proposal from a consortium of global institutional investors (“initial conditional proposal”) to acquire all of the units in CQO other than those held by Charter Hall Group for an indicative price of \$2.39 cash per CQO unit (in addition to the expected return from the sale of the United States portfolio) on 26 August 2011. On 5 October 2011, it was announced that, following further discussions, the initial conditional proposal had been increased to \$2.43 per CQO unit. The IDC believed that the revised proposal was not adequate and agreed to provide the consortium with further due diligence material on a non-exclusive basis to improve their revised proposal. On 5 December 2011, the IDC advised that it had entered into a conditional agreement in relation to a proposal under which the cash payment would be \$2.49 per CQO unit.

The cash payment of \$2.49 per CQO unit for the Australian portfolio will comprise a payment estimated to be \$1.84 per CQO unit from the Bidders and a special distribution estimated to be \$0.65 per CQO unit from CHOML (to be majority funded by a new CQO debt facility). All CQO unitholders (including the Bidders and their associates who are CQO unitholders) will receive the special distribution. All CQO unitholders will also receive:

- one or more special distributions of the net proceeds from the sale of the United States portfolio and any accrued earnings from the United States portfolio from 1 January 2012 up to the scheme implementation date (subject to certain amounts being withheld as necessary to meet United States tax and other liabilities and costs predominantly related to CQO’s offshore subsidiaries (“contingent liabilities”)). The net proceeds from the sale of the United States portfolio are estimated by CHOML to be US\$574.5 million. The amount distributed to CQO unitholders up to the scheme implementation date is expected to be at least US\$494.6 million (i.e. at least \$0.96<sup>2</sup> per CQO unit), with up to US\$80 million (i.e. up to \$0.15<sup>2</sup> per CQO unit) being withheld to meet contingent liabilities. The scheme implementation date is expected to be 30 March 2012; and
- payment of any net proceeds from the sale of the United States portfolio (including any accrued earnings) not distributed prior to the scheme implementation date which are not required to meet any realised contingent liabilities (“scheme contingent consideration”). The scheme contingent consideration will be paid to CQO unitholders by an escrow agent appointed under the SIA and the Bidders will provide funds to the escrow agent for this purpose. CHOML expects that the majority of the scheme contingent consideration will be paid to CQO unitholders six months after the scheme implementation date.

Full details of how these payments will be made are set out in Section 3 of the Explanatory Memorandum.

<sup>1</sup> Other than the 5,218,676 CQO units held by PSP and the 1,295,000 CQO units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund, which will be acquired by the Bidders under the Proposal. At 7 February 2012, the Bidders had a relevant interest in 72,217,797 or 14.64% of CQO units, with Charter Hall Group having a relevant interest in 66,999,121 or 13.58% of CQO units and PSP having a relevant interest in 5,218,676 or 1.06% of CQO units.

<sup>2</sup> Based on an exchange rate of A\$1 = US\$1.08 as at 7 February 2012. See footnote 32 for further details.

## GRANT SAMUEL



All CQO unitholders who held CQO units as at 30 December 2011 will also receive the distribution for the six months ended 31 December 2011 of \$0.11 per CQO unit (representing \$0.072 per CQO unit from the Australian portfolio and \$0.038 per CQO unit from the United States portfolio). This distribution is expected to be paid on or around 21 February 2012.

Under the Proposal, Charter Hall Group will continue to manage CQO on an unlisted basis with a similar fee structure and quantum had CQO remained listed on the Australian Stock Exchange ("ASX").

The Proposal is to be implemented by way of a trust scheme under which the Bidders will acquire all of the CQO units other than certain of those held by the Bidders<sup>3</sup>. Scheme unitholders will be asked to approve the following resolutions at the trust scheme meeting ("meeting") ("scheme resolutions"):

- a special resolution to approve amendments to CQO's Constitution; and
- an ordinary resolution to approve the acquisition by the Bidders of all the units in CQO other than certain of those held by the Bidders.

Charter Hall Group entities, the Bidders and their associates<sup>4</sup> will not vote on the scheme resolutions.

CQO unitholders will also be asked to approve a special resolution to facilitate the payment, if the Proposal is implemented, of CHOML's base fees and expenses for the period from 1 January 2012 to the scheme implementation date. The implementation of the Proposal is not conditional on this resolution being passed.

If the Proposal is implemented, CQO will be owned 42.5% by each of Reco and PSP and 15% by Charter Hall Group entities.

The Proposal is conditional on a number of matters which are set out in the SIA and in Section 1.6 of the Explanatory Memorandum, including:

- completion of the sale of the United States portfolio by the second judicial advice date (expected to be 16 March 2012)<sup>5</sup>;
- obtaining third party consents required in relation to No. 1 Martin Place, Sydney, 171 Collins Street, Melbourne and 300 LaTrobe Street, Melbourne;
- regulatory approvals, including under the Foreign Acquisitions and Takeovers Act 1975;
- an independent expert concluding that the Proposal is in the best interests of scheme unitholders; and
- the Australian Securities and Investments Commission ("ASIC") providing the required modifications and exemptions.

Under the SIA:

- CQO and the Bidders have agreed to certain exclusivity restrictions including no-talk, no-shop and no-due diligence provisions. The no-talk and no-due diligence provisions apply unless the IDC has determined, in good faith and acting reasonably, that a competing proposal is, or is reasonably

<sup>3</sup> The 5,218,676 CQO units held by PSP and the 1,295,000 CQO units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund will be acquired by the Bidders under the Proposal.

<sup>4</sup> Including PSP and Charter Hall Property Securities Fund (through JP Morgan Nominees Australia Limited as custodian). Fir Tree Capital is not an associate of the Bidders.

<sup>5</sup> If CHOML has reason to believe that the sale of the United States assets will not be completed by the second judicial advice date, the meeting will be postponed to the earliest possible date after the date on which it is expected that that sale of the United States assets will have completed.

## Attachment F - Independent Expert's Report

G R A N T   S A M U E L

■   ■   ■

capable of becoming, a superior proposal and failing to respond to such bona fide competing transaction would constitute a breach of fiduciary or statutory duties;

- CQO must notify the Bidders of any approach that would breach the no-shop, no-talk and no-due diligence provisions (unless the IDC determines that the provision of such information would be likely to constitute a breach of their fiduciary or statutory duties) and provide details to the Bidders of the identity of that person and details of the expression of interest and/or proposal or proposed competing transaction. In these circumstances, the Bidders have a right to improve their offer or to propose an alternative transaction;
- a break fee of \$11 million is payable by CQO to the Bidders in certain circumstances; and
- the Proposal has a sunset date of 31 May 2012 (unless extended by the agreement of CQO and the Bidders). If the scheme implementation date is delayed past 30 March 2012 up to and including 31 May 2012, CQO unitholders will be liable for any increased debt costs to the Bidders as a result of this delay, but they will also receive the benefit of accrued Australian sourced distributions from 1 April 2012.

The Proposal has been unanimously recommended by the IDC in the absence of a superior proposal and subject to an independent expert providing an opinion that the Proposal is in the best interests of scheme unitholders.

## 2 Scope of the Report

### 2.1 Purpose of the Report

The Proposal is to be implemented by a trust scheme (“the Scheme”) and is to be facilitated by amendments to CQO’s Constitution and a resolution pursuant to Item 7 of Section 611 of the Corporations Act, 2001 (“Corporations Act”) to approve the acquisition by the Bidders of all of the CQO units held by scheme unitholders. The amendments to the Constitution must be approved by a special resolution at a meeting of CQO unitholders (i.e. approved by unitholders present, eligible to vote and voting (either in person or by proxy) at the meeting representing at least 75% of votes cast on the resolution). The resolution pursuant to section 611 item 7 of the Corporations Act must be approved by an ordinary resolution at a meeting of CQO unitholders other than the Bidders (i.e. approved by unitholders present, eligible to vote and voting (either in person or by proxy) at the meeting representing at least 50% of votes cast on the resolution).

Unlike a company scheme of arrangement under Section 411 of the Corporations Act, a trust scheme is not supervised by ASIC or the Court, although in some circumstances judicial advice is sought by a responsible entity. Although there is no requirement for an independent expert’s report for a trust scheme, the Takeovers Panel has issued Guidance Note 15 which establishes that a notice of meeting relating to a trust scheme should contain an independent expert’s report.

Section 606 of the Corporations Act effectively prohibits a person from acquiring a relevant interest in a public entity where that person’s voting power increases from 20% or below to in excess of 20% or, if that person already has voting power in excess of 20%, their voting power would increase further, except in certain limited circumstances. Item 7 of Section 611 allows non associated securityholders to waive the Section 606 prohibition by passing a resolution in a general meeting. The acquisition of CQO units by the Bidders under the Scheme will increase the Bidders’ relevant interest in CQO from 14.64% to 100%. Consequently, the IDC is seeking approval of unitholders other than the Bidders for the acquisition of units in excess of 20% of issued capital by the Bidders. Securityholders voting pursuant to Item 7 of Section 611 of the Corporations Act are to be provided with a comprehensive analysis of the proposed transaction. The directors of the relevant entity may, as part of satisfying their obligations to provide such an analysis, commission an independent expert’s report.

Accordingly, the IDC has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report. The report is to set out Grant Samuel’s opinion as to whether the Proposal is in the best interests of scheme unitholders and to state reasons for that opinion.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual scheme unitholders. Accordingly, before acting in relation to their investment, scheme unitholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Scheme unitholders should read the Explanatory Memorandum issued by CHOML (in its capacity as responsible entity of CQO) in relation to the Proposal.

Voting for or against the Proposal is a matter for individual scheme unitholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Scheme unitholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

### 2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. However, ASIC has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert’s reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme

## Attachment F - Independent Expert's Report

GRANT SAMUEL

■ ■ ■

of arrangement or trust scheme, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of securityholders.

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for securityholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the securityholders are likely to be better off if the proposal is implemented than if it is not. If the advantages outweigh the disadvantages, the proposal would be in the best interests of securityholders.

ASIC Regulatory Guide 111 provides that an Item 7 of Section 611 proposal involving the issue of securities should be analysed by an expert as if it were a takeover bid. In contrast, in relation to an Item 7 of Section 611 proposal involving the sale of securities, ASIC Regulatory Guide 111 requires an expert to provide an opinion as to whether the advantages of the proposal outweigh the disadvantages.

However, the Proposal has the same economic effect as a takeover offer for CQO. Accordingly, Grant Samuel has evaluated the Proposal as a control transaction and formed a judgement as to whether the proposal is “fair and reasonable”. Therefore, the opinion in relation to the Scheme also addresses matters required for the purpose of Item 7 Section 611 of the Corporations Act.

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that securityholders might consider prior to accepting an offer such as:

- the offeror's existing holding of securities;
- other significant holdings of securities;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's securities.

An offer could be considered “reasonable” if there were valid reasons to accept the offer notwithstanding that it was not “fair”.

Fairness is a more demanding criteria. A “fair” offer will always be “reasonable” but a “reasonable” offer will not necessarily be “fair”. A fair offer is one that reflects the full market value of an entity's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if securityholders are otherwise unlikely in the foreseeable future to realise an amount for their securities in excess of the offer price. This is commonly the case where the bidder already controls the target. In that situation the minority securityholders have little prospect of receiving full value from a third party offeror unless the controlling securityholder is prepared to sell its controlling securityholding.

Grant Samuel has determined whether the Proposal is fair by comparing the estimated underlying value range of CQO with the cash payment offered under the Proposal. The Proposal will be fair if the cash payment falls within the estimated underlying value range. In considering whether the Proposal is reasonable, the factors that have been considered include:

- the existing unitholding structure of CQO;
- the likelihood of an alternative offer or alternative transactions that could realise fair value;

## GRANT SAMUEL



- the likely market price and liquidity of CQO units in the absence of the Proposal; and
- other advantages and disadvantages for scheme unitholders of approving the Proposal.

### 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

#### *Publicly Available Information*

- the Explanatory Memorandum (including earlier drafts);
- annual reports of CQO for the five years ended 30 June 2011;
- press releases, public announcements, media and analyst presentation material and other public filings by CQO including information available on its website;
- brokers' reports and recent press articles on CQO and the office property investment industry in Australia; and
- sharemarket data and related information on Australian listed entities engaged in the office property investment industry and on acquisitions of entities and businesses in this industry.

#### *Non Public Information*

- management accounts for CQO for the six months ended 31 December 2011 and an unaudited balance sheet as at 31 December 2011;
- independent property valuations commissioned by CHOML in relation to each of CQO's Australian property assets as at 31 December 2011;
- summary of the fee structure in the management agreement between the Bidders and Charter Hall Group; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel held discussions with, and obtained information from, senior management of CHOML and its advisers.

### 2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by CHOML. Grant Samuel has considered and relied upon this information. CHOML, in its capacity as responsible entity for CQO, represented in writing to Grant Samuel that the information provided to Grant Samuel was not incomplete, incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is in the best interests of scheme unitholders. However, Grant



## Attachment F - Independent Expert's Report

### GRANT SAMUEL



Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or “due diligence” investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. In this context, Grant Samuel advises that it is not in a position nor is it practicable to undertake its own “due diligence” investigation of the type undertaken by accountants, lawyers or other advisers.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of CQO. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

Grant Samuel has not undertaken any valuations of the properties owned by CQO and, for the purposes of this report, has relied on the independent property valuations commissioned by CHOML for those properties in determining the underlying net asset value of investments in property assets. Grant Samuel has undertaken an analysis of a sample of the independent valuations and notes that:

- the external valuers have accepted instructions only from CHOML and have confirmed that they satisfy the requirements in the Corporations Act that:
  - they are suitably qualified individuals with the requisite five years of appropriate experience;
  - they are authorised by law to practice as a valuer; and
  - they regard themselves as independent of CQO;
- the external valuers have been given appropriate instructions consistently;
- there were no restrictions in the scope of the independent valuers’ engagements or other terms which may have impacted on the quality of the valuations;
- the external valuers have prepared their valuations in accordance with Australian Property Institute (“API”) standards; and
- the external valuers have utilised standard property valuation methodologies (i.e. discounted cash flow, capitalisation of income and direct comparison (i.e. value per cubic metre of net lettable area)) with the value conclusion selected having regard to the results of each methodology.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Explanatory Memorandum sent by CHOML to CQO’s unitholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;

GRANT SAMUEL



- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

G R A N T   S A M U E L

■   ■   ■

### 3 Profile of Charter Hall Office REIT

#### 3.1 Background

CQO is a listed real estate investment trust that invests in predominantly high grade office buildings. CHOML, a wholly owned subsidiary of Charter Hall Group is the responsible entity for the trust. Charter Hall Group is also the largest unitholder in CQO, with a relevant interest in 72.2 million or 14.64% of CQO units<sup>6</sup>.

CQO was listed on the ASX in December 1993 through an initial public offering with Macquarie Bank Limited ("Macquarie") as manager and an investor in the trust. At the time of listing, CQO's property portfolio was entirely Australian based. Macquarie subsequently repositioned the trust to target higher quality assets in higher growth capital cities.

The trust made its first acquisition in the United States in December 2003, buying two A grade office towers in Delaware with a local joint venture partner. In November 2004, the trust acquired Principal America Office Trust, increasing total assets from \$2.0 billion to \$3.4 billion. In 2006 and 2007 the trust further diversified into Europe and Japan. By December 2007, CQO had interests in 44 properties in 33 markets throughout Australia, the United States, Europe and Japan.

In 2008 and 2009 as the global economic situation worsened, the trust sought to reduce gearing by selling properties. It disposed of five non-core properties in Australia in 2008 and 2009, had sold most of its European properties by July 2010 and the Japanese portfolio was sold in January 2011.

In March 2010, Charter Hall Group acquired the majority of Macquarie's Australian real estate funds management platform. Charter Hall Group acquired Macquarie Office Management Limited (the responsible entity of the trust) which was renamed CHOML and 7.5% of Macquarie's units in the trust which was renamed CQO. Most of the Macquarie management team remained with CHOML.

A number of United States based hedge funds, Orange Capital LLC ("Orange Capital"), Luxor Capital Group, LP ("Luxor") and Point Lobos Capital, LLC ("Point Lobos") (pursuant to a co-operation agreement collectively, the "Investor Group") began acquiring units in CQO in late 2010 and by June 2011 had a combined 19.1% relevant interest in CQO (subsequently increased to 19.3% on 29 July 2011). The Investor Group called a meeting of CQO unitholders to consider a resolution to remove CHOML as the responsible entity of CQO and to replace it with Moss Capital Funds Management Limited. The CQO unitholder meeting was held on 27 July 2011 and the resolution was not passed. Point Lobos (with a 2.2% interest) ceased to be a party to the co-operation agreement from 1 November 2011 and the agreement was terminated on 5 December 2011, leaving Orange Capital and Luxor with interests in CQO of 7.2% and 9.9% respectively. Orange Capital ceased to be a substantial unitholder in CQO on 9 January 2012 (and has subsequently ceased holding any CQO units).

As part of a strategy to reduce the discount from net tangible assets ("NTA") per unit at which CQO units were trading and to enhance long term returns, in mid-2010 CQO commenced a process to explore third party interest in the United States portfolio. A wide range of expressions of interest were received in May 2011 and in August 2011, CQO announced that it had entered into an agreement to sell 100% of its interest in the United States portfolio to entities associated with Beacon Capital Partners, LLC for US\$1.71 billion. The net proceeds from the sale of the United States portfolio after repayment of debt, transaction costs and price adjustments is estimated to be US\$574.5 million and CQO expects to provide special distributions to unitholders of the net sale proceeds. CQO expects completion by the scheme implementation date (and completion of the sale of the United States portfolio is a condition to the Proposal being

<sup>6</sup> Charter Hall Group's relevant interest in CQO units arises as a result of it being one of the Bidders. Prior to becoming one of the Bidders, Charter Hall Group had a relevant interest in 67.0 million or 13.58% of CQO units, including 1.3 million or 0.26% of CQO units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund and 16.3 million or 3.31% of CQO units held by Fir Tree Capital (as a result of a Unit Transfer Agreement entered into on 20 June 2011).

## GRANT SAMUEL

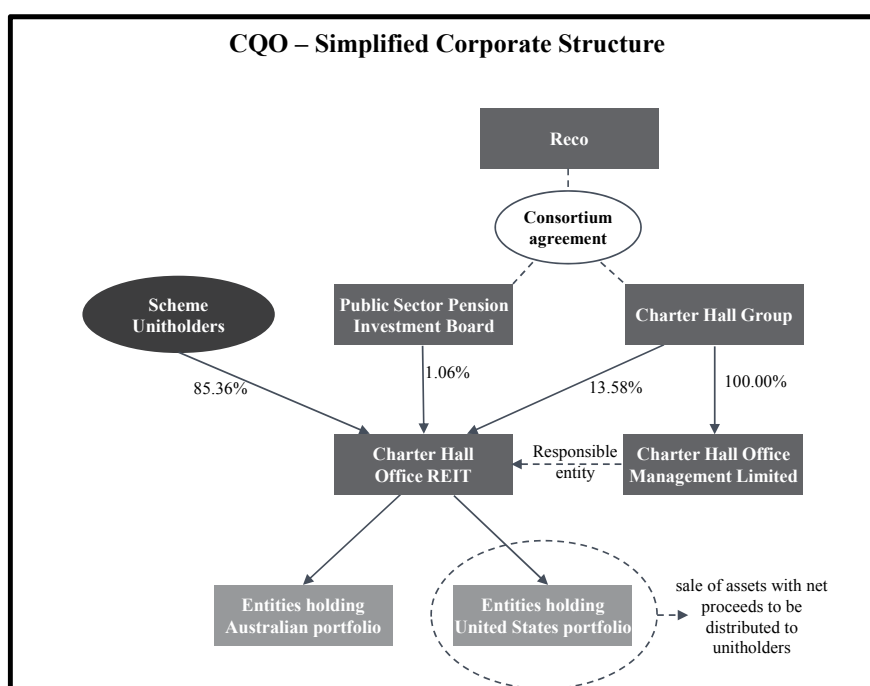


implemented). On completion of the sale of the United States portfolio, CQO's only assets will be its Australian portfolio of office properties.

CQO's Australian portfolio comprises an interest in 18 assets across eight Australian office markets. The Australian portfolio is predominantly premium and A grade office properties (94% of the book value of the portfolio). As at 31 December 2011, it had an average occupancy of 97%, a weighted average lease expiry of 4.5 years and a book value of \$1.85 billion. Approximately 85% of the tenant base is comprised of strong creditworthy tenants, including government, investment grade or nationally recognised tenants.

### 3.2 Trust Structure

The structure of CQO is illustrated in the following chart:



Source: CQO

Charter Hall Group holds a 10.27% beneficial interest in CQO<sup>7</sup> and has entered into an agreement with an option to acquire a further 3.31% interest in CQO held by a United States based hedge fund, Fir Tree Capital. The acquisition of this interest is conditional on the substantial sale of the United States portfolio and distribution of sale proceeds.

PSP, one of the Bidders, holds a 1.06% interest in CQO.

CHOML, the responsible entity of CQO, is a wholly owned subsidiary of Charter Hall Group. In addition, property management, development management, leasing, financial, tax and company secretarial services are provided by subsidiaries of Charter Hall Group.

<sup>7</sup> Including the 1.3 million or 0.26% of CQO units held by JP Morgan Nominees Australia Limited as custodian for the Charter Hall Property Securities Fund.

GRANT SAMUEL

■ ■ ■

### 3.3 Key Arrangements

#### *Responsible Entity Fees*

Under CQO's Constitution, CHOML, as responsible entity, is entitled to receive fees for the provision of management services. The fee structure consists of:

- a base fee equal to 0.45% per annum of total assets of the trust (including its share of the total assets of joint ventures) up to \$1.0 billion and 0.4% of total assets over \$1 billion; and
- a performance fee paid in CQO units depending on the performance of CQO relative to the Office Property Trust Accumulation Index, equivalent to 5% of outperformance above the index plus 10% of any outperformance above a 2% threshold. Any underperformance of CQO against the index is carried forward to future periods.

The aggregate base fee and performance fee is capped at 0.8% of total assets in each financial year unless there is outperformance for a three year period. Payment of any excess performance fees above the 0.8% cap is deferred to the next period.

In the event of the removal of CHOML as responsible entity, a successful takeover offer for the trust or approval of a scheme of arrangement in which there is a material change in the ownership or control of the trust, CHOML is entitled to a cash performance fee based on the offer price (in the case of a takeover offer for the trust) or the midpoint of the independent expert's valuation range (in the case of a scheme of arrangement), in the event that this triggers outperformance. The Proposal does not trigger payment of any cash performance fee.

CHOML is also entitled to receive reimbursement of expenses incurred in the performance of its duties, including third party costs of acquiring and managing assets, capital raising costs, registry, audit, insurance, accounting, marketing, tax and compliance.

#### *Property Management Arrangements*

CHOML's role as responsible entity is defined by CQO's Constitution, the Corporations Act and the general law. There is no separate property management agreement. The manager is responsible for providing property, asset and development management services to CQO, although various management functions (e.g. property management, property agency services including facility management, leasing, property sales and acquisitions, project management, debt arrangement, accounting and corporate and development management and property compliance) are subcontracted to subsidiaries of Charter Hall Group.

There is no contractual arrangement between CHOML and Charter Hall Group for the provision of property management services. However, there is a memorandum of understanding which has been approved by the independent directors of CHOML with a term of three years and expires on 31 December 2012 that sets out the fees for various services which may be required by CHOML from time to time, including acquisitions (0.75% of the purchase price), disposals (0.25-0.75% of the sale price), acquisition and vendor due diligence (0.25% of the purchase or sale price), development management (3.0% of total project costs), property management (1.0% of gross income) as well as various fees for leasing, project management, facilities management, general consultancy and rent negotiations. These fees are in accordance with a Related Party Policy which requires that transactions are on arm's length terms. Charter Hall Group (including the responsible entity) has no obligation to provide investment opportunities to CQO.

Any changes to the management arrangements which are set out in the CQO Constitution and are adverse to unitholders require approval by at least 75% of unitholders at a general meeting to authorise a change to CQO's Constitution.

The manager has no fixed term of appointment and therefore the appointment continues until the manager is removed or retires or unitholders vote to wind up CQO. CQO unitholders may terminate the appointment of the manager without cause, by unitholder vote. The resolution must

## GRANT SAMUEL



be passed by at least 50% of votes cast at a meeting by unitholders entitled to vote. The manager is entitled to vote. The manager is entitled to agree with the incoming manager to be remunerated by, or to receive a benefit from, the incoming manager in relation to its retirement as manager and is not required to account to unitholders for such remuneration or benefit.

### 3.4 Australian Portfolio

CQO's Australian portfolio consists of 18 high quality office properties across eight Australian office markets representing 401,000 square metres (excluding 171 Collins Street, Melbourne).

A summary of the Australian portfolio as at 31 December 2011 is set out below:

CQO – Australian Portfolio as at 31 December 2011					
Property	Owner-ship	Date of Acquisition	Net Lettable Area (000m <sup>2</sup> ) <sup>8</sup>	Book Value <sup>9</sup> (\$ millions)	Portfolio Composition (%)
CitiCentre 2 Park Street, Sydney	50%	Dec 2001	73.5	360.00	19.5%
No. 1 Martin Place Sydney	50%	May 2002	40.2	225.00	12.2%
Allianz Centre 2 Market Street, Sydney	50%	Jan 2004	39.9	171.00	9.3%
59 Goulburn Street Sydney	100%	Jul 2007	19.6	88.50	4.8%
The Denison 65 Berry Street, North Sydney	100%	Feb 2001	15.1	79.00	4.3%
Charter Grove 29-57 Christie Street, St Leonards	100%	Jul 1996	18.1	82.50	4.5%
Avaya House 123 Epping Road, North Ryde	100%	Mar 2001	16.3	74.00	4.0%
Wentworth Place 9 Wentworth Street, Parramatta	100%	Jul 1997	7.7	23.25	1.3%
ATO 266 King Street, Newcastle	100%	Nov 1995	14.2	50.00	2.7%
Argus Centre 300 LaTrobe Street, Melbourne	100%	Dec 1998	33.0	137.00	7.4%
150 Lonsdale St Melbourne	100%	Dec 1998	28.7	131.00	7.1%
171 Collins Street Melbourne <sup>10</sup>	50%	Jun 2006	na	29.70	1.6%
5 Queens Road Melbourne	100%	Sep 1999	17.7	65.00	3.5%
ATO Moonee Ponds 6-20 Gladstone Street, Melbourne	100%	Dec 1993	22.1	77.40	4.2%
175 Eagle Street Brisbane	100%	Sep 2002	22.9	119.00	6.4%
Capital Hill 83-85 George Street, Brisbane	100%	Jun 1999	10.5	51.00	2.8%
Eastpoint Plaza 233-237 Adelaide Terrace, Perth	100%	Sep 2007	11.7	58.00	3.1%
Australia Place 14 Mort Street, Canberra	100%	Oct 1996	9.4	26.50	1.4%
<b>Total</b>			<b>400.6</b>	<b>1,847.85</b>	<b>100.0%</b>

Source: CQO

Properties are independently valued on a three year rolling basis and at other times as necessary. Under the Australian equivalent to international financial reporting standards ("AIFRS"),

<sup>8</sup> Net lettable area is shown for the office component only and on a 100% basis.

<sup>9</sup> Book value shows CQO's ownership interest. Book value is the same as market value as at 31 December 2011.

<sup>10</sup> Under construction. Due to be completed in mid-2013.

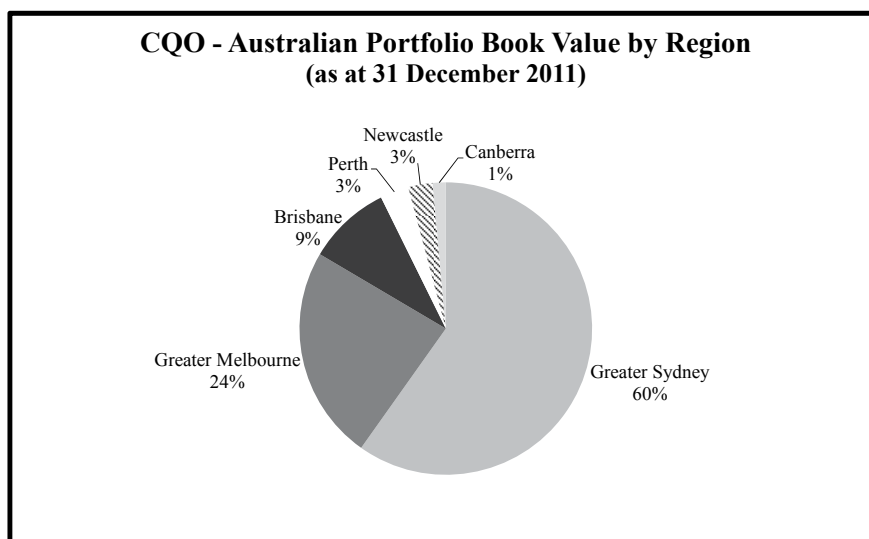
## Attachment F - Independent Expert's Report

### GRANT SAMUEL



investment properties must be recorded at fair value at each reporting date. As a result, those properties that are not independently valued are valued internally. At 31 December 2011, all properties except 171 Collins Street, Melbourne (which is under construction) were independently valued, resulting in a nominal net increase in value of \$5.05 million from \$1,842.8 million at 30 June 2011 to \$1,847.85 million at 31 December 2011. Capitalisation rates declined modestly from an average of 7.84% at 30 June 2011 to an average of 7.79% at 31 December 2011 due to strong sales in the Sydney market. Increases in asset valuations in Brisbane and Perth (due in part to leasing with 100% occupancy in Perth and leasing up impending expiries in Brisbane) and Melbourne (where CQO entered into a new 12 year lease with Telstra Corporation) were offset by declines in values for Sydney based assets due to perceived risk associated with tenants' greater exposure to the global economy and the expiration of major leases in the financial services industry in 2014. These valuations, and the construction cost for 171 Collins Street, Melbourne, to 31 December 2011 are reflected in the book values shown in the above table.

CQO's Australian portfolio is relatively concentrated both geographically and by value. The five largest properties account for 55.4% of the portfolio value with largest single property, its 50% interest in CitiCentre, accounting for 19.5% of the total portfolio value. The portfolio is strongly weighted towards New South Wales (62.4% of the total portfolio value) and, in particular, the Sydney central business district ("CBD") (45.7% of total portfolio value). As a consequence, CQO is heavily exposed to the Sydney office leasing market. The geographic concentration is apparent from the following chart:



Source: CQO

Vacancy rates for prime office property in the Sydney CBD remain close to Sydney office property cycle highs at around 9%,<sup>11</sup> largely as a result of additional supply and slow demand. Recent expectations of lower levels of economic growth and lower employment may further increase vacancy rates. In contrast, the portfolio has a relatively low exposure to the Brisbane CBD and Perth CBD prime office property markets, where strong growth in the resources sector has reduced vacancy rates to 3.5 and 1.5% respectively. Prime office vacancy rates are also relatively low in the Melbourne and Adelaide CBDs at around 4%.

CQO's rental income is secured by medium to long-term leases primarily to investment grade tenants (64% of gross income) and government (21% of gross income). Non-government tenants

<sup>11</sup> Source: Jones Lang LaSalle: Real Estate Intelligence Service, "National Office Overview and Outlook Q4 2011".



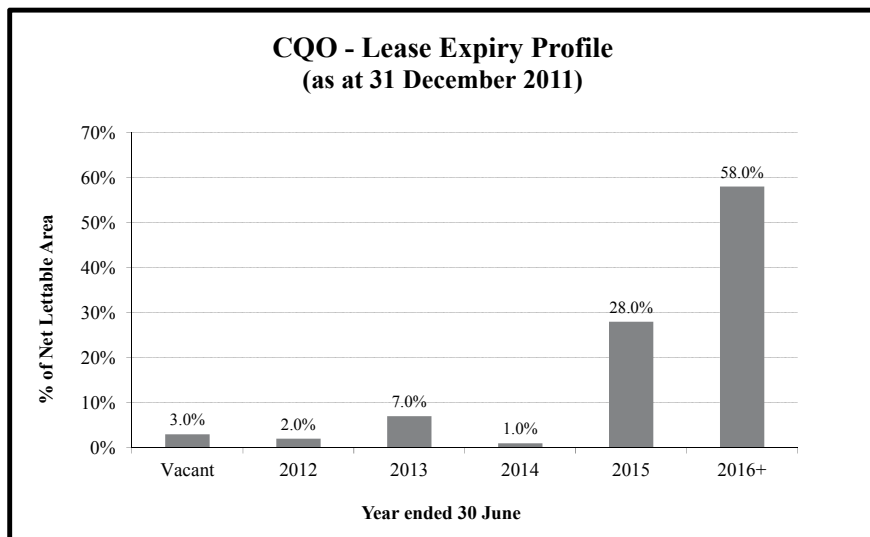
## GRANT SAMUEL



operate across a range of industries including banking and finance, telecommunications and services. At 31 December 2011, the three largest non-government tenants occupied 22% of net lettable area and contributed 25% of net income (i.e. Macquarie, 10.4%, Telstra Corporation, 8.1% and CitiGroup, 6.3%).

Since 2008, CQO's occupancy rates have declined from almost 100% to 97% in 2010 and 2011 due to weakness in the office sector. However, CQO's occupancy rates are high in comparison to the average for the Australian office market (92% at January 2012).<sup>12</sup> The portfolio had a tenant retention rate of 76% in each of 2010 and 2011. The average lease duration of the Australian portfolio also declined from 5.1 years in 2008 to 3.8 years in 2010, however has increased to 4.5 years in June 2011 and December 2011 as a result of a number of key lease renewals (e.g. the Federal Government's Australian Tax Office recommitment for the entire building at Moonee Ponds, Melbourne to 2020 and Telstra's recommitment to 23,482 square metres at the Argus Centre, Melbourne to 2025) and a further four properties being returned to 100% occupancy.

The lease expiry profile as a percentage of net lettable area as at 31 December 2011 is shown below:



Source: CQO

While a large proportion of leases 58% expire in 2016 and beyond, leases with certain key tenants expire in the second half of 2014. Citigroup's lease at CitiCentre, 2 Park Street, Sydney expires in 2014 and Macquarie Group's leases at No. 1 Martin Place, Sydney expire in 2014 and 2016. 71% of the portfolio subject to rent reviews in 2012 (56% fixed, 14% market, 1% CPI).

Like most of its competitors, CQO significantly curtailed its development and re-development activities following the onset of the global financial crisis. Construction of 171 Collins Street Melbourne, which is jointly owned with Cbus Property, is expected to be completed in 2013 and pre-commitments have been received to lease 47% of the office area. Major redevelopment and refurbishment activities have included the \$25 million refurbishment of the forecourt of Allianz Centre, Sydney, which was completed in 2007. CHOML has continued its strategy to optimise the composition of the Australian portfolio and in July 2011 entered into a contract to sell the B grade NCR House property for \$57.3 million. No acquisitions have been made since September 2007.

<sup>12</sup> Source: Property Council of Australia, "Office markets defy doomsayers", 2 February 2012

## Attachment F - Independent Expert's Report

### GRANT SAMUEL



The Australian portfolio includes 14 wholly-owned properties and four held under joint venture arrangements. Two of CQO's most attractive assets (CitiCentre, 2 Park Street, Sydney and No.1 Martin Place, Sydney) and 171 Collins Street, Melbourne (which is under construction) are held through joint ownership arrangements which contain provisions that give rise to pre-emptive rights in certain circumstances with the sale price determined by an independent valuer. In the event of a sale of the asset or a change in responsible entity, the pre-emptive rights for CitiCentre, 2 Park Street, Sydney and No. 1 Martin Place, Sydney may be triggered. In the case of a takeover offer, the pre-emptive rights for No.1 Martin Place, Sydney and 171 Collins Street, Melbourne may be triggered.

### 3.5 Earnings and Distributions

The financial performance of CQO for the five years ended 30 June 2011 and the six months ended 31 December 2011 (on a look through basis) is summarised below:

CQO - Financial Performance <sup>13</sup> (\$ millions)						
	Year ended 30 June					Six months ended
	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	31 December 2011 actual <sup>14</sup>
Net property income	342.3	357.3	380.0	309.5	254.3	120.9
Other income	42.7	33.6	18.4	(2.2)	17.6	6.5
Finance costs	(132.0)	(165.9)	(175.6)	(134.4)	(115.2)	(50.5)
Management fees	(23.0)	(25.6)	(24.4)	(18.1)	(15.8)	(7.0)
Trust expenses	(4.3)	(6.7)	(8.3)	(7.9)	(7.5)	(5.3)
Withholding and income tax expense	(3.0)	(2.8)	(4.3)	(1.1)	0.2	0.4
<b>Operating earnings<sup>15</sup></b>	<b>222.7</b>	<b>189.9</b>	<b>185.8</b>	<b>145.8</b>	<b>133.6</b>	<b>65.0</b>
Net gain/(loss) on sale of investments	14.4	46.6	(148.3)	(18.8)	(4.0)	(47.5)
Net property valuation gain/(loss)	716.2	31.8	(1,332.4)	(280.7)	21.9	(17.3)
Gain/(Loss) on re-measurement of assets in discontinued United States joint venture entities	-	-	-	-	(54.5)	17.3
Unrealised derivative movements and early terminations	166.9	79.5	(342.6)	16.5	6.6	(10.5)
Goodwill impairment <sup>16</sup>	-	(200.8)	-	-	-	-
United States CGT expense/(benefit)	(145.5)	32.5	210.7	51.8	(14.4)	(17.8)
Transfer from reserves of cumulative foreign exchange gains/(losses)	-	-	-	-	(12.2)	(34.0)
Other	(7.0)	29.2	54.0	(5.7)	(33.8)	(15.7)
<b>Net profit/(loss) after tax</b>	<b>967.7</b>	<b>208.7</b>	<b>(1,372.8)</b>	<b>(91.1)</b>	<b>43.2</b>	<b>(60.5)</b>
Outside equity interests	(0.1)	-	0.4	0.4	0.2	-
<b>Profit after tax attributable to CQO unitholders</b>	<b>967.6</b>	<b>208.7</b>	<b>(1,372.4)</b>	<b>(90.7)</b>	<b>43.4</b>	<b>(60.5)</b>

<sup>13</sup> The basis of presentation of CQO's financial performance is not in accordance with the Australian equivalent to international financial reporting standards ("AIFRS"). To provide more meaningful analysis, operating earnings includes CQO's share of income and expenses from joint ventures and excludes non cash and non-operating items.

<sup>14</sup> Financial performance for the six months ended 31 December 2011 is unaudited. Net loss after tax includes earnings from consolidated United States entities held for sale but excludes equity accounted income from United States joint ventures held for sale in accordance with AIFRS requirements.

<sup>15</sup> Operating earnings represents net profit adjusted for certain unrealised, non-cash, non-recurring capital transactions and other non-operating items. Operating earnings was previously called core earnings. In the year ending 30 June 2007, operating earnings is represented by distributable earnings adjusted for net (gains)/losses on sale of investments and revaluation (losses)/gains on disposal of investment properties. Adjusted distributable earnings does not adjust for the realised impact of hedging policies whereas core earnings and operating earnings do adjust for this impact.

<sup>16</sup> The goodwill impairment related to the write off in full of the goodwill on acquisition of Principal America Office Trust.

# GRANT SAMUEL



CQO - Financial Performance <sup>13</sup> (\$ millions)						
	Year ended 30 June					Six months ended
	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	31 December 2011 actual <sup>14</sup>
<b>Statistics</b>						
Operating earnings per unit (cents)	11.20	9.34	5.64	3.03	27.08 <sup>17</sup>	13.18 <sup>17</sup>
Earnings per unit (cents)	48.76	10.29	(42.00)	(1.90)	8.80 <sup>17</sup>	(12.26) <sup>17</sup>
Distribution per unit (cents)	11.20	11.20	3.75	1.85	20.25 <sup>17</sup>	11.00 <sup>17</sup>
Taxable amount (cents)	3.83	5.41	1.51	-	-	0.15 <sup>17,18</sup>
Tax deferred amount (cents)	5.42	2.78	0.04	1.85	20.25 <sup>17</sup>	10.85 <sup>17,18</sup>
Capital gain (cents)	1.95	3.01	2.20	-	-	-
Foreign tax credit (cents)	0.01	0.32	0.47	-	-	-
Average A\$/US\$ exchange rate for period	0.79	0.90	0.74	0.88	1.00	1.03

Source: CQO and Grant Samuel analysis

Operating earnings declined in the years ended 30 June 2008 and 2009 as global credit markets tightened and financing costs increased. CQO sought to reduce its gearing by disposing of properties and while this strategy resulted in a reduction in borrowings and finance costs, it also had an impact on net property income (particularly in the years ended 30 June 2010 and 2011).

Operating earnings have also been impacted by movements in the A\$/US\$ exchange rate, particularly in the year ended 30 June 2011 when there was a 26% strengthening of the A\$ against the US\$ (from A\$1=US\$0.85 at 30 June 2010 to A\$1=US\$1.07 at 30 June 2011).

Financial performance for the six months ended 31 December 2011 is not directly comparable with prior periods as CQO ceased equity accounting its United States joint venture entities from 1 June 2011 (when these assets were reclassified as held for sale in accordance with AIFRS requirements). Therefore, any profit or loss generated post 1 June 2011 by the United States joint ventures is not reflected in CQO's net profit or loss after tax. The loss on re-measurement of assets in discontinued United States joint venture entities in the year ended 30 June 2011 and the gain in the six months ended 31 December 2011 represent the writedown to the lower of the carrying value and fair value less costs to sell. Trust expenses for the six months ended 31 December 2011 includes expenses related to the Proposal and the unitholder meeting called by the Investor Group to consider a resolution to remove CHOML.

Management fees have declined over the period in line with the fall in value of CQO's property portfolio (as a result of the global financial crisis and, particularly in the year ended 30 June 2011, the appreciation of the A\$ against the US\$ as well as because of property sales that have occurred). CHOML has agreed to waive the base fee on any derivative mark-to-market asset value included in CQO's total assets. Performance fees have not been paid over the period shown in the table above.

Under Australian income tax legislation, CQO is not liable to income tax provided it distributes all of its taxable income (including assessable realised capital gains) to unitholders. The subsidiary real estate investment trusts ("REITs") in the United States are REITs for United States income tax purposes and, on this basis, are generally not liable for federal and state income taxes in the United States. CQO incurs withholding tax on any taxable distributions from the United States including any interest income which is earned from the subsidiary REITs. Distribution of capital gains by the United States subsidiary REITs are subject to United States withholding tax at the rate of 35% which may give rise to a foreign tax credit in the hands of CQO unitholders. Distributions by

<sup>17</sup> Operating earnings per unit, earnings per unit and distribution per unit for the year ended 30 June 2011 and the six months ended 31 December 2011 reflect the impact of the 1 for 10 unit consolidation that took place in September 2010. The information in prior years does not adjust for the unit consolidation.

<sup>18</sup> Based on a preliminary assessment, CHOML expects that 98.64% of this distribution will be tax deferred.

## Attachment F - Independent Expert's Report

### GRANT SAMUEL



CQO also have a tax deferred component that reduces the cost base of the units for capital gains tax purposes.

Under its foreign income hedging policy, CQO hedges the net operating foreign cash distributions expected to be repatriated to Australia (rather than hedging the foreign accounting income). This assists in preventing the trust being over hedged when compared to underlying cash flows. CQO does not hedge its capital investment other than through natural hedging obtained from borrowings and other liabilities denominated in foreign currency. Unrealised derivative losses in 2009 relate to a decline in the A\$ against the US\$ over this period at which time CQO did hedge its offshore capital.

Foreign exchange differences arising on translation of the interests in foreign controlled entities or equity accounted joint ventures are taken directly to the foreign currency translation reserve. On disposal of interests in foreign controlled entities, the cumulative foreign exchange gains or losses relating to these investments are transferred to the income statement. Losses in 2011 relate to the disposal of the Japanese portfolio while losses in the six months to 31 December 2011 relate to the disposal of the United States and European portfolios.

CQO's current distribution payout ratio policy is set between 75-90% of operating earnings.

CHOML is unable to provide detailed historical financial performance for the Australian portfolio in isolation as earnings from the Australian portfolio are inextricably linked to earnings from the United States, European and Japanese portfolios. For example, CQO had a multi-jurisdictional syndicated debt facility based in Australia and secured by assets in each region of operation. Therefore, it would be necessary to allocate interest expense and any income or loss on associated derivatives (interest rate swaps and cross currency swaps) between regions. It would also be necessary to allocate trust expenses between regions. The available information in relation to the financial performance of the Australian portfolio over the five years ended 30 June 2011 and the six months ended 31 December 2011 is set out below:

Australian Continuing Operations - Financial Performance (\$ millions)						
	Year ended 30 June					Six months ended
	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	31 December 2011 actual <sup>19</sup>
Net property income from current portfolio	120.0	134.9	140.0	139.7	140.3	72.2
Net property income from sold properties	29.5	25.4	18.2	5.0	4.2	0.5
<b>Net property income</b>	<b>149.6</b>	<b>160.4</b>	<b>158.1</b>	<b>144.5</b>	<b>144.4</b>	<b>72.7</b>
<b>Operating earnings</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>46.4</b>
<b>Net profit after tax<sup>20</sup></b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>71.0</b>	<b>107.2</b>	<b>16.9</b>
<i>Statistics</i>						
Earnings per unit (cents) <sup>21</sup>	na	na	na	14.4	21.7	3.43
Distribution per unit (cents)	na	na	na	na	na	7.2

Source: CQO

Net profit after tax for the six months ended 31 December 2011 was reduced by a \$7.5 million derivatives loss (net) and a \$13.6 million revaluation decrement (after allowing for capital expenditure and AIFRS related balance sheet adjustments e.g. straight lining).

<sup>19</sup> Financial performance for the six months ended 31 December 2011 is unaudited. CHOML expects to release CQO's half year financial statements (which will have been subject to review by CQO's auditors) on 21 February 2012.

<sup>20</sup> Net profit after tax for the Australian continuing operations for the years ended 30 June 2010 and 2011 reflect CQO's reported profit from continuing operations. CHOML does not expect that net profit after tax for the Australian portfolio would have been materially different from net profit after tax for the continuing operations.

<sup>21</sup> Earnings per unit for the year ended 30 June 2010 has been adjusted to reflect the impact of the 1 for 10 unit consolidation that took place in September 2010.

## GRANT SAMUEL



CHOML expects operating earnings for the Australian portfolio for the year ending 30 June 2012 to be approximately 17.5-18.0 cents per CQO unit, or \$86.3-88.8 million.

### 3.6 Financial Position

The actual and pro forma financial position of CQO (on a look through basis) as at 30 June 2011 and 31 December 2011 is summarised below:

CQO - Financial Position (\$ millions)				
	As at 30 June 2011		As at 31 December 2011 <sup>22</sup>	
	actual	pro forma <sup>23</sup>	actual	pro forma
Accounts receivable and prepayments	37.3	37.3	34.5	34.5
Payables and unearned revenue	(48.6)	(48.6)	(53.9)	(53.9)
Investment properties and joint ventures	1,842.8	1,842.8	1,847.9	1,847.9
Investment in No. 1 Martin Place Trust	18.4	18.4	18.4	18.4
Derivatives (net)	30.0	5.2	(4.7)	(11.8)
Capitalised borrowing costs	3.9	3.9	4.7	4.7
Provision for distribution	(54.3)	-	(54.3)	(35.5)
Assets held for sale (net)	614.9	-	497.4	-
<b>Total funds employed</b>	<b>2,444.4</b>	<b>1,859.0</b>	<b>2,290.0</b>	<b>1,804.3</b>
Cash	175.9	68.1	107.7	102.2
Borrowings	(765.7)	(630.4)	(590.0)	(631.0)
<b>Net borrowings</b>	<b>(589.8)</b>	<b>(562.3)</b>	<b>(482.3)</b>	<b>(528.8)</b>
<b>Net assets</b>	<b>1,854.6</b>	<b>1,296.7</b>	<b>1,807.7</b>	<b>1,275.5</b>
Outside equity interests	(0.1)	-	(0.1)	-
<b>Equity attributable to CQO unitholders</b>	<b>1,854.5</b>	<b>1,296.7</b>	<b>1,807.6</b>	<b>1,275.5</b>
<i>Units on issue at period end (million)</i>	<i>493.3</i>	<i>493.3</i>	<i>493.3</i>	<i>493.3</i>
<i>NTA<sup>24</sup> per unit</i>	<i>\$3.76</i>	<i>\$2.63</i>	<i>\$3.66</i>	<i>\$2.59</i>
<i>Balance sheet gearing<sup>25</sup></i>	<i>33.2%</i>	<i>30.0%</i>	<i>26.4%</i>	<i>28.3%</i>
<i>Look through gearing<sup>25</sup></i>	<i>42.9%</i>	<i>29.3%</i>	<i>38.5%</i>	<i>27.5%</i>

Source: CQO and Grant Samuel analysis

Certain Australian properties are held through joint venture entities. CQO exercises joint control over these entities but neither CQO nor its joint venture partner has control in their own right, irrespective of their ownership interest. As a result, investments in joint venture entities are accounted for using the equity method. The financial position is presented on a look through basis by including CQO's proportionate share of assets and liabilities of the Australian joint ventures.

The pro forma financial position as at 31 December 2011 reflects the Australian portfolio only and incorporates the following adjustments:

- \$45.9 million proceeds received from the sale of United States portfolio prior to 31 December 2011 that has been repatriated to Australia (of which \$41.0 million was used temporarily to repay Australian debt) and \$0.6 million in associated interest savings is distributed to CQO unitholders;

<sup>22</sup> Financial position as at 31 December 2011 is unaudited. CHOML expects to release CQO's half year financial statements (which will have been subject to review by CQO's auditors) on 21 February 2012.

<sup>23</sup> Reflects the Australian portfolio only and assumes the remaining European property and United States portfolio are sold, associated borrowings are repaid and 100% of the net proceeds from the sale of the United States portfolio is distributed to CQO unitholders, certain cross currency swaps and forward foreign exchange contract derivatives related to the United States portfolio are removed, the CMBS debt commitment is reduced due to the application of restricted cash deposits and net derivative receipts, cash is reduced to reflect the payment of the distribution for the six months ended 30 June 2011 and the NCR House sale proceeds are applied to reduce Australian debt.

<sup>24</sup> NTA is calculated as net assets less intangible assets. As CQO has no intangible assets, NTA is equivalent to net assets.

<sup>25</sup> Balance sheet gearing and look through gearing are calculated as borrowings net of capitalised borrowing costs and cash divided by total assets net of cash.

### GRANT SAMUEL



- the remaining United States assets are sold, associated borrowings are repaid and 100% of the net proceeds from the sale of the United States portfolio is distributed to CQO unitholders;
- the provision for the \$0.038 distribution in relation to the United States portfolio for the six months ended 31 December 2011 is removed as this will be paid out of earnings from the United States portfolio; and
- foreign exchange derivatives utilised to hedge the United States portfolio sale proceeds are removed.

The investment in No. 1 Martin Place Trust ("1MPT") represents CQO's 12.0% interest in the unlisted units of the trust. No. 1 Martin Place Trust owns a 50% interest in No. 1 Martin Place, Sydney (with CQO owning the other 50% interest). The investment in No. 1 Martin Place Trust is stated in CQO's accounts at the value of its interest in the underlying assets of the trust which approximate fair value.

Following the sale of the United States portfolio, CQO targets a look-through gearing ratio of 25-35% and has proactively managed its debt maturities. As at 31 December 2011, the Australian portfolio had balance sheet gearing of 28.3% and look through gearing of 27.5%. At 31 December 2011, Australian borrowings were provided through two facilities, a \$600 million syndicated bank debt facility maturing in January 2014 and secured by 12 Australian properties (drawn to \$300 million as at 31 December 2011) and \$290 million three year back stop facility. The back stop facility was used to partially refinance \$365 million of commercial mortgage backed securities ("CMBS") which matured in September 2011 and provides the flexibility to pursue a securitised debt market issuance at any time.

CQO uses interest rate swaps to manage some of its Australian floating interest rate exposure. The net derivative financial position as at 31 December 2011 allocated to the Australian operations was a liability of \$11.8 million.

The pro forma financial position as at 31 December 2011 incorporates a provision for the distribution for the six months ended 31 December 2011 from the Australian portfolio of \$0.072 per CQO unit or a total of \$35.5 million.

### 3.7 Capital Structure and Ownership

As at 7 February 2012, CQO had 493,319,730 units on issue. CQO has a dividend reinvestment plan ("DRP") although the DRP was suspended commencing with the distribution for the six months ended 31 December 2010.

At 6 February 2012 there were 18,489 registered unitholders in CQO. CQO units are predominantly held by domestic institutions, foreign institutions and hedge funds. An analysis of 94% of the CQO unit register on 27 January 2011 showed that domestic institutions, foreign institutions and hedge funds held approximately 42%, 17% and 11% of CQO units respectively.

## GRANT SAMUEL



CQO has received notices from the following substantial unitholders:

<b>CQO – Substantial Unitholders as at 7 February 2012</b>			
<b>Unitholder</b>	<b>Date of Notice</b>	<b>Number of Units</b>	<b>Percentage Interest</b>
Charter Hall Group	as advised by CQO	72,217,797	14.64%
PSP	as advised by CQO	72,217,797	14.64%
Reco	as advised by CQO	72,217,797	14.64%
National Australia Bank Limited	25 January 2012	61,991,235	12.57%
Deutsche Bank Group	20 January 2012	53,468,002	10.84%
Luxor Capital Group, LP	5 December 2011	48,691,559	9.87%
UBS AG	31 January 2012	34,379,955	6.97%
The Gandel Group Pty Ltd	23 June 2011	25,420,963	5.15%
Vanguard Investments Australia Ltd	27 June 2011	24,851,216	5.04%

Source: IRESS

Each of the Bidders (Charter Hall Group, PSP and Reco) has a relevant interest in CQO units held by Charter Hall Group (13.58%) and PSP (1.06%).

Charter Hall Group's relevant interest includes a 1.06% interest in CQO held by PSP and a 3.31% interest in CQO held by a United States based hedge fund, Fir Tree Capital. Charter Hall Group and Fir Tree Capital have entered into a unit transfer agreement dated 21 June 2011 (as amended on 5 December 2011) in relation to these CQO units under which Fir Tree Capital has a put option such that, if by 31 May 2012, subject to certain conditions, the Proposal is not implemented, it may sell its interest in CQO to Charter Hall Group. The conditions are that CQO's United States portfolio (or at least 80% by value of the portfolio) has been sold and the payment of at least 95% of the net proceeds to CQO unitholders by way of one or more capital returns. The agreed acquisition price for the CQO units is the lower of \$2.48 and the cash payment under the Proposal. Fir Tree Capital retains the right to exercise the votes attached to the CQO units until the sale of its CQO units to Charter Hall Group occurs.

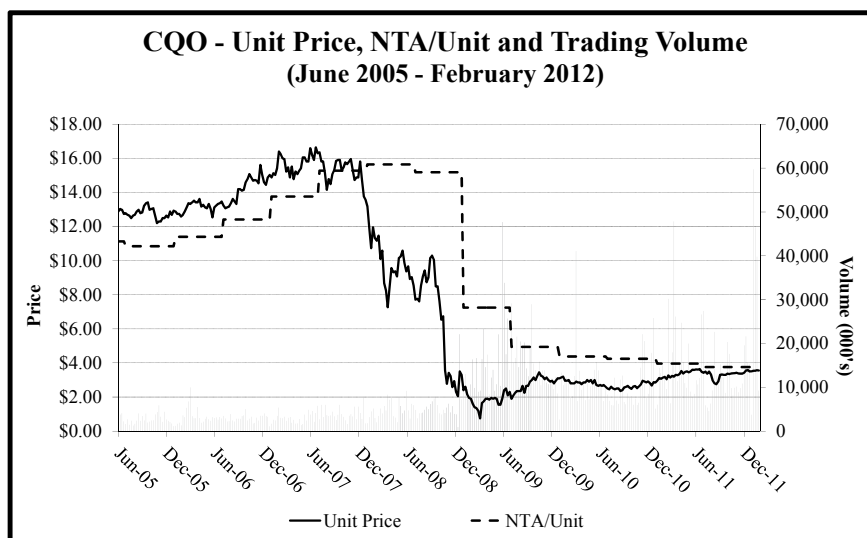


GRANT SAMUEL



### 3.8 Unit Price Performance

The following graph illustrates the movement in the CQO unit price and trading volumes since 1 June 2005:



Source: IRESS, Grant Samuel analysis. CQO unit prices have been adjusted to reflect 1 for 10 unit consolidation in September 2010

CQO units generally traded at a small premium to NTA in the three years to 31 December 2007 but since then have traded at a discount with the discount becoming very substantial during the global financial crisis.

The substantial discount to NTA per unit at which CQO traded (up to 83% at its peak) reflected the difficult market conditions faced by all REITs as a result of the global financial crisis, including limited access to debt and equity funding, declining property values and tenants under pressure. The gap between the CQO unit price and NTA has diminished as markets have recovered with the discount to NTA per CQO unit falling from 58% in June 2009 to 28% in December 2010. Since the beginning of 2011 the CQO unit price has increased, closing the gap between the CQO unit price and NTA per CQO unit even further.

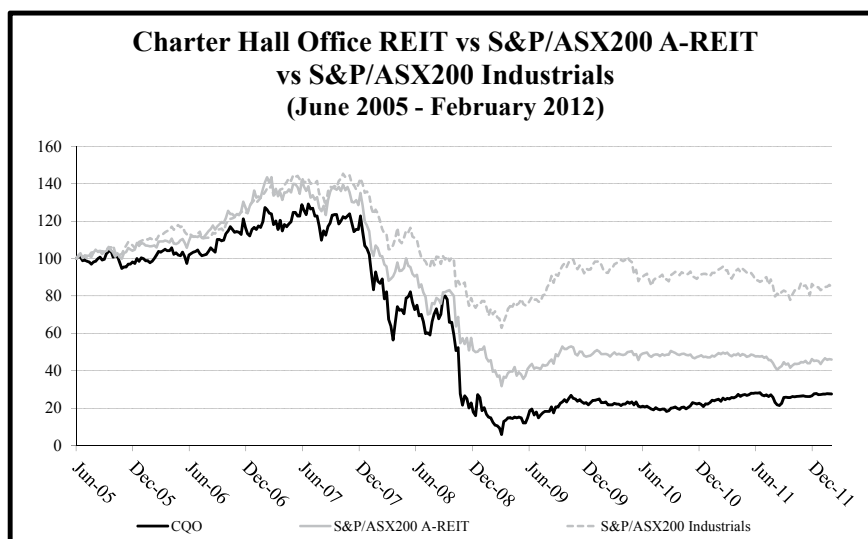
In the month prior to 26 August 2011 (the last trading day immediately prior to the announcement that CQO had received the initial conditional proposal), CQO's volume weighted average unit price ("VWAP") was \$2.93, compared to NTA per CQO unit of \$3.76 as at 30 June 2011, a discount of 22%. The closing price on 26 August 2011 was \$2.90, a discount of 23% to NTA per CQO unit as at 30 June 2011. From 26 August 2011 to 7 February 2012, CQO units have traded in the range \$3.16-\$3.61, at a VWAP of \$3.46, which represents a discount of (5.5)% to NTA per CQO unit of \$3.66 as at 31 December 2011.

CQO has been a liquid stock. Average weekly volume over the twelve months prior to the announcement that CQO had received the initial conditional proposal represented approximately 2.7% of average CQO units on issue or annual turnover of around 141% of total average issued capital.

## GRANT SAMUEL



The performance of CQO's unit price since 1 June 2005 relative to the S&P/ASX200 A-REIT Index and S&P/ASX200 Industrials Index is illustrated in the following chart:



Source: IRESS

CQO performed broadly in line with the S&P/ASX200 A-REIT Index from June 2005 until October 2008 when the CQO unit price fell significantly, reflecting its exposure (49% of net asset value at 30 June 2008) to the weaker United States office property market where rising unemployment and consolidation of the banking sector were expected to result in lower rental income and occupancy, as well as concerns about CQO's ability to refinance Australian debt, particularly given the size and nature of the debt (with the effective closure of the CMBS market) and as the market reacted to debt covenant concerns following the recapitalisation of GPT Group.

From late October 2008, CQO tracked both indices, then outperformed the indices from October 2010 until July 2011, corresponding with the accumulation of a combined 19.3% interest in CQO by the Investor Group (and despite a significant appreciation in the A\$ against the US\$ over this period). The increase in the CQO unit price will also reflect the announcement of the decision to sell the United States portfolio and a growing expectation of a good outcome from that sale process as well as improved operating performance, proactive management of debt maturities and continued orderly realisation of other non-core assets.

CQO underperformed the indices from 3 August 2011 when it announced that it had entered into an agreement to sell 100% of its interest in the United States portfolio at a premium of 2.0% to book value, until 29 August 2011 when the initial conditional proposal was announced.

## Attachment F - Independent Expert's Report

G R A N T S A M U E L



CQO's accumulated returns compared to those of the S&P/ASX200 A-REIT Index and the S&P/ASX200 Industrials Index are shown below:

<b>CQO – Comparison of Accumulation Indices</b>						
	<b>Accumulated Returns to 26 August 2011<sup>26</sup></b>					
	<b>1 month</b>	<b>3 month</b>	<b>1 year</b>	<b>3 years (annual)</b>	<b>5 years (annual)</b>	<b>10 years (annual)</b>
CQO	(12.9)%	(16.2)%	29.3%	(26.0)%	(19.5)%	(5.5)%
S&P/ASX200 A-REIT Index	(3.8)%	(9.6)%	(7.3)%	(13.3)%	(12.6)%	0.7%
S&P/ASX200 Industrials Index	(3.4)%	(8.0)%	(1.4)%	(1.0)%	(1.2)%	4.4%

Source: IRESS. Returns based on daily data and assuming that net dividends are reinvested.

CQO has generally underperformed Australian benchmarks based on a comparison of accumulation indices. The listed REIT sector was more severely impacted by the global financial crisis than the overall sharemarket. CQO underperformed the S&P/ASX200 A-REIT Index, possibly because of its substantial gearing and exposure to the more seriously affected United States office property market and the A\$/US\$ exchange rate. It should also be noted that the S&P/ASX200 A-REIT Index is heavily weighted towards retail portfolios and consequently, the performance of the index will more closely correlate with the performance of the retail industry than the office property sector.

<sup>26</sup> 26 August 2011 is the last trading day prior to the announcement of the initial conditional proposal.



## 4 Evaluation of the Proposal

### 4.1 Conclusion

In Grant Samuel's opinion, the Proposal is fair and reasonable to, and in the best interests of, scheme unitholders in the absence of a superior proposal.

Passive holders of property investments such as CQO are usually valued based on net assets. The adjusted pro forma Australian unaudited NTA<sup>27</sup> is \$1,226.9-1,262.9 million or \$2.49-2.56 per CQO unit. The cash payment under the Proposal of \$2.49 per CQO unit is within this range (albeit at the low end) and therefore the Proposal is fair. As the Proposal is fair it is also reasonable. As the Proposal is fair and reasonable, it is in the best interests of scheme unitholders.

The adjusted pro forma Australian unaudited NTA has been calculated based on unaudited financial information as at 31 December 2011. CHOML does not expect to release CQO's half year financial statements (which will have been subject to review by CQO's auditors) until 21 February 2012 (i.e. after the date of this report but prior to the meeting). The cash payment under the Proposal is at the low end of the range of adjusted pro forma Australian unaudited NTA per CQO unit and movements in the pro forma Australian unaudited NTA as a result of the review of the financial statements by CQO's auditors could result in the cash payment falling below the low end of this range. However, unless there was a substantial increase in the pro forma Australian NTA, it is likely that even if the Proposal was not fair it would still be reasonable. On this basis, the Proposal would continue to be in the best interests of scheme unitholders. This is because:

- the Proposal gives scheme unitholders the opportunity to realise their investment in the Australian portfolio at:
  - a significant premium to pre-bid trading prices. The combination of the cash payment under the Proposal of \$2.49 per CQO unit plus the estimated net proceeds from the sale of the United States portfolio of \$1.11 per CQO unit (a combined payment of \$3.60 per CQO unit) represents a premium to the recent trading price of CQO units in the range 23-27% (although the CQO unit price at the time in part reflected uncertainty associated with the sale of the United States portfolio);
  - a relatively small discount to pro forma Australian unaudited NTA of (3.9)%. This discount is not inconsistent with the pricing of recent Australian non-distressed listed REIT control transactions which, although limited in number, have taken place at a (discount)/premium to NTA in the range (4.3)-3.1%; and
  - an attractive exit yield<sup>28</sup> of 5.3-6.5% compared to other recent Australian non-distressed listed REIT control transactions which have taken place at exit yields in the range 6.0-8.6%; and
- none of the realistic alternative strategies available for realising value are likely to result in a better outcome for scheme unitholders:
  - while it might be argued that it is an inopportune time to sell and that CQO unitholders might ultimately realise greater value by deferring the sale of the Australian portfolio, the quantum and timing of any such gain is uncertain. The Proposal provides the certainty of cash in the short term at a significant premium to pre-bid trading prices. Assuming a continuation of current market conditions (i.e. the slower than expected recovery in the Australian office property market and the impact of the ongoing European sovereign debt crisis on Australian equities markets and consumer and business sentiment), the CQO unit price would be expected to fall in the absence of the Proposal or a similar transaction;

<sup>27</sup> The adjusted pro forma Australian unaudited NTA differs from the pro forma Australian unaudited NTA of \$2.59 as a result of the adjustments outlined in Section 4.2.

<sup>28</sup> The exit yield is the distribution yield implied by the cash payment under the Proposal. It is calculated as the forecast distribution for the Australian portfolio divided by the cash payment under the Proposal.

## Attachment F - Independent Expert's Report

### GRANT SAMUEL



- a wind up of the Australian portfolio is unlikely to realise a return to scheme unitholders in excess of the cash payment under the Proposal as it would involve costs and some risks given the size and nature of the Australian portfolio; and
- despite CQO being “in play” since August 2011, no alternative acquisition proposal has been received at the date of this report and there appears little likelihood that an alternative bidder will make a more attractive offer for the Australian portfolio.

There are other considerations for scheme unitholders (including tax consequences and a delay in receipt of a portion of the net proceeds from the sale of the United States portfolio)<sup>29</sup>. While scheme unitholders should be aware of these considerations, they do not change Grant Samuel’s opinion that the Proposal is fair and reasonable to, and in the best interests of, scheme unitholders in the absence of a superior proposal.

#### 4.2 Net Asset Value and Fairness

REITs are commonly valued by buyers and sellers on the basis of net asset values. For these types of businesses, properties are generally carried on the balance sheet at market value and the appropriate valuation methodology is to aggregate the market value of the individual property assets. Other assets or liabilities that are not carried at market value are adjusted to reflect market value. Other valuation methodologies (such as capitalisation of earnings and discounting of cash flows of the entity as a whole) are not appropriate for the valuation of REITs that passively hold portfolios of properties and do not undertake any other activities (such as property development or real estate funds management). However, it should be noted that the individual properties in the Australian portfolio have been valued by independent valuers using a number of methodologies including discounted cash flow, capitalisation of income and direct comparison (i.e. value per square metre of net lettable area).

The pro forma Australian unaudited NTA as at 31 December 2011 was \$2.59 per CQO unit (or \$1,275.5 million). Various adjustments have been made to this figure to obtain an adjusted pro forma NTA which is more appropriate for assessing value. These adjustments are as follows:

Adjusted Pro Forma Australian Unaudited Net Tangible Assets (\$ millions)		
	Low	High
<b>Pro forma NTA as at 31 December 2011</b>	<b>1,275.5</b>	<b>1,275.5</b>
Movement in value of investment in No. 1 Martin Place Trust	(0.9)	(0.9)
Estimated distribution from 1 January 2012 to scheme implementation date	14.5	22.0
Capitalised borrowing costs	(4.7)	(4.7)
Capitalised overheads (including responsible entity fees)	(57.5)	(29.0)
<b>Adjusted pro forma NTA</b>	<b>1,226.9</b>	<b>1,262.9</b>
Number of issued units (millions)	493.3	493.3
<b>Adjusted pro forma NTA per CQO unit</b>	<b>\$2.49</b>	<b>\$2.56</b>

The adjusted pro forma NTA represents the estimated realisable value of CQO’s Australian portfolio assuming 100% was available to be acquired. REITs (and CQO in particular) are passive holders of a portfolio of properties and are quite different in character to operating businesses. There is no higher “control value” for these assets.

#### *Property Valuations*

The base for calculating the adjusted pro forma Australian unaudited NTA was the current valuations of each of the Australian properties undertaken by independent valuers. All properties were independently valued as at 31 December 2011 except 171 Collins Street, Melbourne which is

<sup>29</sup> Refer to Section 4.3.4.

## GRANT SAMUEL



under construction and is shown at cost up to 31 December 2011. These valuations represent the carrying value of the property assets in CQO's accounts as at 31 December 2011. Grant Samuel relied on these valuations for the purposes of its report and did not undertake its own valuations of the properties. Given the nature of the evaluation, Grant Samuel does not have any reason to believe that it is not reasonable to rely on these valuations for this purpose. Grant Samuel has undertaken an analysis of a sample of the independent valuations and notes that:

- the external valuers have accepted instructions only from CHOML and have confirmed that they satisfy the requirements in the Corporations Act that:
  - they are suitably qualified individuals with the requisite five years of appropriate experience;
  - they are authorised by law to practice as a valuer; and
  - they regard themselves as independent of CQO.

CHOML has informed Grant Samuel that each valuer is independent of CHOML and the Charter Hall Group;

- the external valuers have been given appropriate instructions consistently;
- there were no restrictions in the scope of the independent valuers' engagements or other terms which may have impacted on the quality of the valuations;
- the external valuers have prepared their valuations in accordance with API standards; and
- the external valuers have utilised standard property valuation methodologies (i.e. discounted cash flow, capitalisation of income and direct comparison (i.e. value per square metre of net lettable area)) with the value conclusion selected having regard to the results of each methodology.

This does not, however, imply that the valuations have been subject to any form of audit or due diligence.

Given the short time that has elapsed since 31 December 2011 (i.e. a period of less than two months) and the nature of the assets being valued (i.e. passive investments in office property assets for which there is no liquid market), there is unlikely to have been any change in the market value of these assets since they were valued on 31 December 2011.

### *Investment in No. 1 Martin Place Trust*

CQO holds a 12.0% interest in the unlisted units of 1MPT, an entity which owns 50% of the joint ventures which own No.1 Martin Place, Sydney (the remaining 50% interest in the joint ventures is held by CQO). At 30 June 2011, 1MPT had NTA of \$152.6 million (12.0%, or \$18.4 million of which represents CQO's investment in 1MPT).

The NTA for 1MPT reflects the independent valuation of No. 1 Martin Place as at 30 June 2011. Grant Samuel has adjusted the 1MPT NTA to reflect the decline in the value of No. 1 Martin Place between 30 June 2011 and 31 December 2011 as follows:

<b>No. 1 Martin Place Trust – Adjusted Net Asset Value</b>	
	<b>\$ millions</b>
<b>NTA as at 30 June 2011</b>	<b>152.6</b>
Change in valuation of No.1 Martin Place to 31 December 2011	(7.5)
<b>Adjusted NTA</b>	<b>145.1</b>

Source: CQO and Grant Samuel analysis

Based on 1MPT's adjusted NTA of \$145.1 million, CQO's 12.0% interest has a value of \$17.5 million.

## Attachment F - Independent Expert's Report

### GRANT SAMUEL



The pro forma Australian unaudited NTA as at 31 December 2011 incorporates a value of \$18.4 million for CQO's 12.0% interest in the underlying assets of 1MPT. Therefore, an adjustment of \$0.9 million has been made to the pro forma Australian unaudited NTA to reflect the decline in the underlying value of its interest in 1MPT.

#### *Australian Portfolio Earnings and Distributions*

The distribution for the six months ended 31 December 2011 from the Australian portfolio of \$0.072 per CQO unit or a total of \$35.5 million is expected to be paid on or about 23 February 2012. The pro forma balance sheet as at 31 December 2011 incorporates a provision for this distribution. Consequently, no further adjustment is necessary for this distribution.

CQO unitholders are entitled to receive the benefit of earnings generated by the Australian portfolio from 1 January 2012 until the scheme implementation date (expected to be 30 March 2012), whether these funds are paid as a distribution to unitholders or reinvested in the business. However, under the Proposal, no distributions from the Australian portfolio will be paid to scheme unitholders from 1 January 2012 up until the scheme implementation date. Furthermore, the starting point for adjusted NTA of the Australian portfolio is the 31 December 2011 balance sheet, which does not incorporate the benefit of any earnings reinvested in the business subsequent to that date. Therefore, an adjustment has been made to the pro forma Australian unaudited NTA to reflect the estimated distribution for the period from 1 January 2012 to the scheme implementation date (expected to be 30 March 2012) as follows:

Australian Portfolio – Estimated Distribution from 1 January 2012		
	Low	High
Estimated operating earnings per unit for the year ending 30 June 2012	\$0.175	\$0.180
Distribution payout ratio	75%	90%
Estimated distribution per unit for the year ending 30 June 2012	\$0.131	\$0.162
Distribution paid for the six months ended 31 December 2011	\$(0.072)	\$(0.072)
Estimated distribution per unit for the six months ending 30 June 2012	\$0.059	\$0.090
Number of days from 1 January 2012 to 30 March 2012	90/182	90/182
Estimated distribution per unit from 1 January 2012 to 30 March 2012	\$0.029	\$0.045
<b>Total estimated distribution from 1 January 2012 to 30 March 2012</b>	<b>\$14.5 million</b>	<b>\$22.0 million</b>

Source: CQO and Grant Samuel analysis

#### *Capitalised Borrowing Costs*

The pro forma Australian unaudited NTA includes a \$4.7 million asset representing the unamortised balance of certain borrowing costs which have been capitalised for accounting purposes. These are not assets that have a realisable value and therefore have been excluded in calculating the adjusted pro forma Australian unaudited NTA.

#### *Capitalised Overheads*

Valuations based on net assets do not take into account the cost structure associated with a listed property investment vehicle. Corporate overheads are a cost of CQO's operating structure and include:

- responsible entity fees; and
- trust expenses.

Responsible entity fees would be payable as long as the Australian portfolio is externally managed. Alternatively, acquisitions of listed Australian REITS that involve internalisation of management typically (but not always) involve a payment to the outgoing responsible entity for the management rights. While internalisation of management has not been considered by CHOML



## GRANT SAMUEL



as an alternative, it is relevant to consider in assessing the underlying value of the Australian portfolio.

The responsible entity of CQO is entitled to receive a base fee equal to 0.45% per annum of total assets of the trust (including its share of the total assets of joint ventures) up to \$1.0 billion and 0.4% of total assets over \$1 billion. Base fees for the Australian portfolio were \$8.8 million in the year ended 30 June 2011 and are expected to be slightly lower in the year ending 30 June 2012 (at approximately \$8.5 million) as a result of the sale of NCR House and assuming no change in property values. A recent review of corporate governance and fees commissioned by the IDC of CHOML confirmed that the existing fees are broadly within the range of those for externally managed REITs that have a similar fee structure (0.45-0.67%), albeit at the low end of the range. The review included an analysis by an independent advisor of the fee structure for a sample of over 30 externally managed REITs in Australia, Asia and New Zealand. Although CHOML is entitled to receive performance fees, no performance fees have been paid in recent years as a result of the underperformance of the CQO units relative to the benchmark index and the cumulative underperformance carries forward into future years. If management of the trust was internalised, there would still be costs incurred in managing the Australian portfolio, although these are likely to be considerably less than the fees paid to an external manager. For the purposes of this analysis, Grant Samuel has assumed that the cost savings would be in the order of 50% (i.e. responsible entity costs of approximately \$4.25 million).

In addition to responsible entity fees, CQO incurs recurring trust expenses of approximately \$4 million per annum in relation to the Australian portfolio. These costs include professional fees, audit, tax, insurance and costs associated with being a listed entity (such as directors' fees, annual reports and unitholder communications, unit registry and listing fees and dividend processing). Any acquirer of 100% of CQO would be able to save the costs associated with being a publicly listed entity. Furthermore, an acquirer of CQO which has an existing presence in Australia would be able to eliminate some of the other operating costs. It is estimated that approximately 25% of operating expenses would be saved, leaving trust expenses of approximately \$3 million per annum.

In earnings based valuations, total corporate costs (of \$7.25-11.5 million in the case of the Australian portfolio) would generally be capitalised at an appropriate multiple to arrive at an adjustment to value. In Grant Samuel's view, it is also appropriate to adjust the pro forma Australian unaudited NTA for the corporate costs associated with the trust structure.

In considering the appropriate multiple at which to capitalise these corporate costs, Grant Samuel has considered the prices at which recent transactions of management rights have occurred. While not directly comparable (as these transactions usually involve a payment to the manager in return for the management rights being terminated), these transactions represent a suitable proxy. There has been considerable transaction activity in Australia involving the acquisition of real estate asset and property management rights in recent years. A selection of relevant transactions since 2007 is set out in Appendix 2.

Recent transactions involving property management rights post the global economic downturn (which commenced in mid-2007) have generally been undertaken at lower earnings multiples and percentages of assets under management ("FUM") than those which occurred in earlier years. This decrease reflects both the impact of the global economic downturn and the distressed nature of many of the transactions that have occurred since the end of 2007. The multiples for transactions which have occurred after December 2007 and which do not reflect distressed situations are in the range 4-9 times historical EBIT and 8-10.5 times forecast EBIT (but on very limited information).

Capitalising corporate overheads of \$7.25-11.5 million at multiples at the low end of this range (i.e. an EBIT multiple of 4-5 times) gives an adjustment for corporate overheads in the range \$29.0-57.5 million or \$0.06-0.12 per CQO unit.

## Attachment F - Independent Expert's Report

GRANT SAMUEL



### *Implied Exit Yield*

The adjusted pro forma Australian unaudited NTA of \$2.49-2.56 per CQO unit implies the following forecast exit yields:

Implied Exit Yield		
	Low	High
Adjusted pro forma Australian unaudited NTA	\$2.49	\$2.56
Forecast distribution for the year ending 30 June 2012 <sup>30</sup>	13.1-16.2¢	
Forecast exit yield	5.3-6.5%	5.1-6.3%

The distribution yields implied by the trading prices of other listed office REITs and the exit yields implied by recent control transactions involving listed REITs is set out in Appendix 1 to this report. This evidence shows that:

- Australian listed office REITs are trading at forecast distribution yields in the range 5.9-6.1%. An exception to this is Mirvac, which is trading at a forecast distribution yield of 6.7%, which may reflect its greater exposure to the retail and residential property sectors. Immediately prior to the announcement of the initial conditional proposal, CQO units were trading at a forecast distribution yield of 7.6%<sup>31</sup>. This relatively higher distribution yield in part reflects the uncertainty associated with the sale of the United States portfolio. The forecast distribution yield prior to the announcement of the sale of the United States portfolio was 6.7%<sup>31</sup>; and
- the exit yields for recent Australian control transactions involving listed REITs have been in a wide range of 4.1-15.6%. This wide range reflects the particular circumstances of the target REITs at the times of the transactions. For example, Abacus Storage Fund, Valad Property Group, MacarthurCook Industrial Property Fund, Mirvac Real Estate Investment Trust and Orchard Industrial Property Fund were arguably in distress and are, therefore, not comparable to the Proposal. The remaining three transactions have taken place at exit yields in the range 6.0-8.6%. These transactions are the acquisitions of Westpac Office Trust (a pure office REIT) (exit yield of 7.7%), Rabinov Property Trust (70% of its property portfolio is in the office sector) (exit yield of 8.6%) and ING Industrial Fund (exit yield of 6.0%). ING Industrial Fund is less comparable to CQO's Australian portfolio as it did not have an exposure to the office property sector. Westpac Office Trust had a substantial exposure (94%) to the New South Wales office property market and was more geographically concentrated than CQO, whereas Rabinov Property Trust did not have a New South Wales office property exposure. However, Westpac Office Trust had a higher weighted average lease expiry (8.7 years) and higher occupancy (99%) as well as a greater proportion of investment grade tenants (84%) than CQO although it also had lower quality assets (84% A-grade properties and no premium properties). Rabinov Property Trust's office property portfolio comprises lower quality properties. The Rabinov Property Trust transaction took place at the highest exit yield but it involved a scrip consideration, which enabled securityholders to retain their exposure to any general recovery in property markets.

An exit yield in the lower end of the range would be appropriate given the quality of the Australian portfolio, although this would be offset to some extent by its relatively smaller scale. However:

- CQO has historically traded at relatively high yields. The exit yield implied by the adjusted pro forma Australian unaudited NTA of 5.1-6.5% compares to a CQO forecast distribution yield of 7.6% prior to the announcement of the initial conditional proposal (or 6.7% prior to the announcement of the sale of the United States portfolio); and

<sup>30</sup> The forecast distribution for the year ending 30 June 2012 for the Australian portfolio is based on management's guidance for operating earnings of 17.5-18.0 cents per CQO unit and CQO's target distribution payout ratio of 75-90%.

<sup>31</sup> CQO's forecast distribution yield has been based on a forecast distribution for the year ending 30 June 2012 of \$0.22 (calculated by annualising the distribution for the six months ended 301 December 2011 of \$0.11).

## GRANT SAMUEL



- the Australian portfolio has limited growth opportunities. Transactions that have taken place at low yields have generally had growth or other development pipeline opportunities that the Australian portfolio does not have. The Australian portfolio is a portfolio of assets with no development pipeline (and which has not acquired any properties since September 2007).

### ***Fairness***

Taking into account the adjustments outlined above, the adjusted pro forma Australian unaudited NTA is \$1,226.9-1,262.9 million or \$2.49-2.56 per CQO unit. The cash payment under the Proposal of \$2.49 per CQO unit is within this range (albeit at the low end) and therefore the Proposal is fair.

The adjusted pro forma Australian unaudited NTA has been calculated based on unaudited financial information as at 31 December 2011. CHOML does not expect to release CQO's half year financial statements (which will have been subject to review by CQO's auditors) until 21 February 2012 (i.e. after the date of this report but prior to the meeting). As the cash payment under the Proposal is at the low end of the adjusted pro forma Australian unaudited NTA per CQO unit, movements in the pro forma Australian unaudited NTA as a result of the review of the financial statements by CQO's auditors could result in the cash payment falling below the low end of this range. There are a number of factors that could result in an increase in the pro forma Australian unaudited NTA including (but not limited to), mathematical errors identified in the review and a difference of opinion between CHOML and CQO's auditors in relation to the allocation of items between continuing and discontinued operations or in relation to the nature or quantum of pro forma adjustments. However, unless there was a substantial increase in the pro forma Australian NTA, it is likely that even if the Proposal was not fair it would still be reasonable. The reasonableness factors taken into consideration are set out below.

## **4.3 Reasonableness**

### **4.3.1 Comparison to Market Parameters**

#### ***Overview***

The calculation of adjusted NTA per CQO unit is a limited analysis in so far as it does not capture the extent to which sharemarket investors may attribute a higher or lower value than NTA to reflect expectations about future actions or decisions such as acquisitions, redevelopments, currency hedging or currency movements. Markets tend to value property trusts primarily on yield (and yield growth) rather than NTA.

Comparison of the cash payment under the Proposal to CQO recent trading prices is complicated by the separate sale of the United States portfolio, which is currently underway. The trading price of CQO units incorporates value attributable to the United States portfolio (until such time as the net proceeds are distributed to CQO unitholders) as well as value attributable to the Australian portfolio. To provide some guidance for scheme unitholders, Grant Samuel has undertaken this analysis by adding the estimated net proceeds from the sale of the United States portfolio (taking into account the hedging program for a portion of the net sale proceeds) to the cash payment under the Proposal and comparing this combined payment to CQO trading prices.

## Attachment F - Independent Expert's Report

### GRANT SAMUEL



The cash payment under the Proposal of \$2.49 per CQO unit plus the estimated net proceeds from the sale of the United States portfolio of \$1.11 per CQO unit<sup>32</sup> (a combined total of \$3.60 per CQO unit) implies a premium to the recent trading price of CQO units (prior to the announcement of the initial conditional proposal) in the range 6.8-27.2%.

The cash payment under the Proposal of \$2.49 per CQO unit implies:

- a discount to the pro forma Australian unaudited NTA of (3.9)%; and
- an exit yield in the range 5.3-6.5%.

These parameters are summarised in the table below:

Implied Parameters		
	Parameter	Premium/ (discount) and Yield
<b>Premium to CQO trading price (based on combined payment of \$3.60)</b>		
Closing price on 26 August 2011	\$2.90	24.1%
VWAP for 1 week ended 26 August 2011	\$2.83	27.2%
VWAP for 1 month ended 26 August 2011	\$2.93	22.9%
VWAP for 3 months ended 26 August 2011	\$3.13	15.0%
VWAP for 6 months ended 26 August 2011	\$3.37	6.8%
<b>Premium/(discount) to NTA per CQO unit at 31 December 2011</b>		
Australian portfolio pro forma NTA	\$2.59	(3.9)%
<b>Exit yield</b>		
Forecast distribution for the year ending 30 June 2012 <sup>33</sup>	13.1-16.2¢	5.3-6.5%

The premium/(discount) to NTA and the exit yield implied by the cash payment under the Proposal can be compared with evidence from recent listed REIT control transactions (post the global financial crisis) and the market parameters of listed Australian office REITs, which are set out in Appendix 1 to this report.

#### *Premium to CQO Trading Price*

The offer premiums usually observed in industrial company acquisitions have historically been in a very wide range, but are typically in the range 20-35%, although it must be recognised that the premium is an outcome rather than a determinant of value. Premiums over pre bid trading prices are paid for a variety of reasons (which is why the size of the premium varies), including access to cash flows, strategic control of the business, synergies and other opportunities.

<sup>32</sup> Based on the estimated net proceeds from the sale of the United States portfolio of US\$574.5 million and assuming that all of the estimated US\$80 million withheld to meet contingent liabilities is paid to CQO unitholders. Calculated as US\$574.5 million, net of:

- \$US44.1 million converted at an exchange rate of A\$1 = US\$0.9612 already repatriated to Australia (\$45.9 million);
- US\$50 million hedged at a fixed rate of A\$1 = US\$1.04 (\$48.1 million); and
- US\$200 million hedged subject to floor (A\$1 = US\$0.8) and ceiling (A\$1 = US\$1.02) exchange rates converted at an exchange rate of A\$1 = US\$1.02 (\$196.1 million).

The remaining US\$280.4 million has been converted to A\$ at an exchange rate of A\$1 = US\$1.08, the closing exchange rate on 7 February 2012 (\$259.6 million). The resulting \$549.7 million is equivalent to \$1.11 per CQO unit. Although this amount will be received over a period of time, it is expected to be received in the 2012 calendar year and has not been discounted. The actual net proceeds distributed may vary from this amount.

<sup>33</sup> The forecast distribution for the year ending 30 June 2012 for the Australian portfolio is based on management's guidance for operating earnings of 17.5-18.0 cents per CQO unit and CQO's target distribution payout ratio of 75-90%.

## GRANT SAMUEL



However, these factors do not apply to a portfolio of property assets (or at least only to a limited extent) and accordingly, there is normally little scope for large premiums over pre bid prices to be paid in property trust acquisitions.

In the case of CQO, the cash payment under the Proposal of \$2.49 combined with the estimated net proceeds from the sale of the United States portfolio represents a premium of 23-27% to trading prices in the month prior to the announcement of the initial conditional proposal. These premiums are very high (within the range of premiums usually seen in industrial company acquisitions). They reflect in part the impact on the CQO unit price of the announcement on 3 August 2011 that contracts had been exchanged for the sale of the United States portfolio and the uncertainty associated with:

- the ultimate net sale proceeds that would be received by CQO unitholders (quantum and timing); and
- completion of the sale (particularly given the deterioration in United States debt markets).

The CQO unit price fell from \$3.30 on 3 August 2011 to \$2.97 on 5 August 2011.

The premiums over trading prices for longer periods (of 3-6 months prior to the announcement of the initial conditional proposal) are lower at 7-15% and are more consistent with the premiums over pre-bid trading prices usually observed in acquisitions of listed REITs, although the CQO unit price over these periods also reflects the impact of the buying of CQO units by the Investor Group, which increased its combined interest in CQO from 8.1% to 19.1% over the period from 27 February to 6 June 2011.

CQO units have only traded above \$3.60 very briefly in the 12 months prior to the announcement of the initial conditional proposal, on 16 trading days between 19 May 2011 and 23 June 2011, with the CQO unit price peaking at \$3.71 on 20 June 2011 (the VWAP on that date was \$3.67). The daily VWAP has only exceeded \$3.60 on 13 trading days over the same period. This was at a time when the Investor Group disclosed it had a combined 19.1% interest in CQO and that it would call a general meeting to remove CHOML as responsible entity of CQO.

### ***Premium/(Discount) to NTA***

The premium/(discount) to NTA implied by the trading prices of other listed office REITs and by recent control transactions involving listed REITs is set out in Appendix 1 to this report. This evidence shows that:

- Australian listed office REITs are trading at a discount to NTA, generally in the range (11)-(16)%. Over time, the prices of securities in listed office REITs have moved up and down relative to NTA and at times the sector has traded at a premium to NTA (albeit relatively small). There is a rationale for listed REITs trading at a discount to NTA:
  - the additional management cost overlay; and
  - lags in property valuations (in a falling market).

Equally, there are arguments as to why portfolios of property assets might trade at a premium to NTA:

- investors in securities may be prepared to pay a premium (accept a lower return) to have a liquid investment in assets that would otherwise be relatively illiquid;
- the value from other activities (e.g. development and funds management); and
- lags in property valuations (in a rising market)

The Australian listed REIT sector was severely impacted by the global financial crisis with security prices and (subsequently) property valuations falling significantly. While there has been evidence of some recovery with security prices increasing and property valuations starting to recover, the ongoing volatility and uncertainty in global economic conditions has

## Attachment F - Independent Expert's Report

GRANT SAMUEL

■ ■ ■

seen the trading price discount to NTA increase again more recently. In the 12 months prior to the announcement of the initial conditional proposal, CQO units traded at discount to NTA in the range (7)-(43)%. Immediately prior to the announcement of the initial conditional proposal, CQO units traded at discount to NTA of (22.9)%. This discount to NTA in part reflects the uncertainty associated with the sale of the United States portfolio at that time;

- the large listed REITs (GPT Group ("GPT"), Dexus Property Group ("Dexus") and Mirvac Property Group ("Mircac")) are diversified with only 30-60% of their portfolios represented by office properties. Mirvac and GPT have substantial exposure to the retail sector, which continues to be hampered by weak consumer sentiment (due primarily to the uncertainty of the economic outlook in international markets such as Europe, the United States and China). They also undertake other activities such as development and funds management which contribute significantly to their performance. Mirvac's residential development activities and retail exposure may have contributed to its larger discount to NTA of 23%;
- of those listed REITs with an exposure only to office properties (Commonwealth Property Office Fund ("Commonwealth Property") and Investa Office Fund ("Investa")), the only REIT that offers exposure to a pure Australia office REIT is Commonwealth Property (although Investa also has a strategy to divest non-Australian properties). This may explain the slightly lower discount to NTA for Commonwealth Property ((11.7)%) compared to Investa ((13.0)%). Similar to CQO's Australian portfolio, both are externally managed and do not have access to a development pipeline; and
- recent control transactions involving listed REITs have generally taken place at quite significant discounts to NTA. A number of the transactions involved entities that were arguably in distress and are, therefore, not comparable to the Proposal (refer to the discussion in Section 4.2 of this report for further details of these transactions). These transactions took place at discounts to NTA in the range (8)-(32)%. It is also likely that the timing of the transactions had an impact on the premium/(discount) to NTA as the earlier transactions took place prior to the write down of the book value of assets in the entity's accounts, implying a greater discount to NTA than might have been the case. The remaining three transactions (details of which are set out in Section 4.2 of this report) have taken place at around NTA (in the range (4.3)-3.1%). The Rabinov Property Trust transaction took place at the largest discount to NTA but it involved a scrip consideration, which enabled securityholders to retain their exposure to any general recovery in property markets. The relatively smaller discounts to NTA implied by recent, non-distressed transactions compared to the discounts to NTA implied by the trading prices of listed office REITs reflect a combination of:
  - the recent increase in discounts to NTA implied by the trading prices of listed REITs as a result of the ongoing volatility and uncertainty in global economic conditions; and
  - differences in approach between property securities investors (who are focussed on yield relative to alternatives) and property valuers.

CQO has a quality portfolio with 34% (by value) of premium assets and 63% (by value) of A grade assets. It offers an attractive investment given the limited pool of Australian listed REITs with an exposure to the Australian office market. The cash payment under the Proposal of \$2.49 per CQO unit represents a discount of (3.9)% to unadjusted pro forma Australian unaudited NTA as at 31 December 2011. This level of discount, while at the high end, is not dissimilar to the level of discount implied by recent, non-distressed transactions.

### ***Exit Yield***

The exit yield implied by the cash payment under the Proposal of 5.3-6.5% is very attractive as it is at the low end or below the range of exit yields implied by recent non-distressed transactions in the Australian listed REIT sector (which have been in the range 6.0-8.6%). A more detailed discussion of distribution yields implied by the trading prices of other listed office REITs and the exit yields implied by recent control transactions involving listed REITs is set out in Section 4.2 of this report.



#### 4.3.2 Alternatives

In weighing up any offer, scheme unitholders need to have regard to the alternatives that are realistically available to CQO. The alternatives considered by CHOML were:

- remain as a listed REIT;
- wind up; and
- an alternative superior acquisition proposal.

Each of these alternatives is considered below.

##### *Remain as a Listed REIT*

In the absence of the Proposal or a similar transaction, scheme unitholders could only realise their investment in CQO by selling on market. In these circumstances (and assuming there was no speculation as to an alternative or revised proposal), it is likely that CQO units, under current market conditions, would trade at prices below \$3.60 (the cash payment under the Proposal of \$2.49 per CQO unit plus the estimated net proceeds from the sale of the United States portfolio of \$1.11 per CQO unit). Scheme unitholders who sold on market would also incur transaction costs (i.e. brokerage).

Immediately prior to the announcement of the initial conditional proposal on 29 August 2010, CQO units traded at a 23% discount to NTA. While the trading price discount to NTA of CQO (and other listed REITs) had been declining (CQO's discount to NTA fell to 7% in July 2011) reflecting a positive outlook for the office property sector (which was seen to be in a recovery and growth phase), the global economic uncertainty that caused a significant downturn in the sharemarket in August 2011 has seen trading discounts to NTA increase for all listed REITs. Since the announcement of the initial conditional proposal, there has been some recovery. The S&P/ASX200 A-REIT Index has increased by 5.0% and the trading price discounts to NTA for Australian office REITs have declined from (14)-(30)% to (11)-(23)%. It is also possible that the trading price discount to NTA will continue to decline with a turnaround in the office property sector and more positive investor sentiment. However, global economic uncertainty and volatility in markets shows no signs of abating.

While it may be argued that it is an inopportune time to sell the Australian portfolio given the slower than expected recovery in the Australian office property market and the impact of the ongoing European sovereign debt crisis on Australian equities markets and consumer and business sentiment (which has a flow on effect to the office property sector):

- the cash payment under the Proposal provides the certainty of cash and (in combination with the expected net proceeds from the sale of the United States portfolio) is at a significant premium to pre-bid trading prices. The CQO unit price has increased significantly since the announcement of the initial conditional proposal and as improvements in the offer price have been announced. The CQO unit price increased by \$0.47 (16.2%) on 29 August 2011, \$0.10 (3.1%) on 5-6 October 2011 and \$0.15 (4.4%) on 5 December 2011. While some of this increase may be explained by movements in the market as a whole (the ASX/S&P 200 increased by 1.5%, 5.1% and 0.8% on these dates), it would not be unreasonable to assume that the majority of the increase was due to the initial conditional proposal and the Proposal. As a result, CQO's unit price would be expected to fall in the absence of the Proposal and there can be no guarantee of any short to medium term improvement in the market or general economic conditions; and
- scheme unitholders that wish to retain an exposure to the Australian office property sector and obtain the benefit from any eventual upswing in the office property cycle can exit the Australian portfolio at a relatively small discount to NTA (of (3.9)% based on unadjusted pro forma NTA) and reinvest in other listed office REITs that are still trading at more significant discounts to NTA, although these opportunities are limited (e.g. Commonwealth Property and Investa which are trading at discounts to NTA of (11.7)% and (13.0)% respectively).



G R A N T   S A M U E L

■   ■   ■

### *Wind Up*

A wind up of the Australian portfolio is unlikely to realise a return to scheme unitholders in excess of the cash payment under the Proposal. Sale of the Australian portfolio and the distribution of the net proceeds would involve costs and some risks:

- sale of the portfolio is likely to take a considerable amount of time, perhaps in excess of 12 months given its size (18 properties), nature (including the existence of pre-emptive rights under joint venture agreements for some of the most attractive assets) and current market conditions (i.e. the slower than expected recovery in the Australian office property market and the impact of the ongoing European sovereign debt crisis on Australian equities markets and consumer and business sentiment). CQO unitholders would not receive the net proceeds from the sale of the Australian portfolio until the conclusion of the process although unitholders would benefit from any increase in value of the portfolio over this period assuming market conditions improve and capitalisation rates tighten;
- it may be difficult to sell the Australian portfolio in a single line:
  - the process would be complicated by pre-emptive rights under joint venture agreements. The Australian portfolio includes four assets which are held in joint ventures. Two of its most attractive assets (No.1 Martin Place, Sydney and CitiCentre, 2 Park Street, Sydney) are held in joint ventures which contain provisions that give rise to pre-emptive rights in certain circumstances with the sale price determined by an independent valuer. Offering the Australian portfolio without the certainty that these premium assets would ultimately be available to the purchaser is likely to be detrimental to the sale process both in terms of the price achievable and marketability; and
  - the Australian portfolio had a book value at 31 December 2011 of \$1.85 billion. There are a limited number of potential buyers that would have the financial capacity to undertake an acquisition of this size.

If the Australian portfolio was sold on a piecemeal basis, CQO may be able to sell the attractive properties relatively easily and at strong prices (e.g. at a premium to book value) but may also be left with a lower quality, more difficult to sell, "rump". CQO would have a weakened negotiating position in relation to these remaining assets as it would then be a very committed seller; and

- some selling costs, break fees and taxes would be payable on the sale of the Australian portfolio. They would reduce the net proceeds from sale:
  - while disposal fees and stamp duty applicable to individual properties is reflected to some extent in the independent property valuations, other selling costs such as legal and agents fees and some broker fees may be incurred on the sale of each property;
  - a subsequent winding up of the trust would also incur costs. These would primarily be legal, regulatory and unitholder costs which CHOML has estimated are likely to be in the range \$2.5-3.0 million;
  - break fees may be payable on the early repayment of the Australian syndicated bank debt facilities. While these would be subject to negotiation at the time, the fees could be up to 0.5% of the drawn amount of the facilities. CQO may also incur break fees unwinding interest rate agreements; and
  - sale of the Australian portfolio at book value would realise a substantial capital gain for tax purposes. However, CQO has substantial unrealised capital losses (particularly in relation to the winding up of the United States subsidiaries) which, at current exchange rates, once realised, would offset this capital gain. In addition, any net gain that may flow through to CQO unitholders based on their share of total income distributions for CQO for that year would be offset by an equivalent capital loss realised on disposal of their CQO units on the winding up of CQO.

*Alternative Offer*

While CHOML has agreed to no-talk, no-shop and no-due diligence provisions and the Bidders have the right to match any unsolicited competing proposal, these provisions do not prevent a more attractive alternative offer being made. The \$11 million break fee is not of a magnitude to represent a barrier to alternative proposals, representing approximately \$0.02 per CQO unit and 0.86%<sup>34</sup> of pro forma Australian unaudited NTA.

The Bidders' 14.58% relevant interest in CQO could be a deterrent to an acquisition proposal by any other party. In any event, the cash payment under the Proposal represents a fair price for the Australian portfolio and it is unlikely that alternative bidders would be prepared to offer a price equal to or higher than \$2.49 per CQO unit, particularly given the Bidders' right to match any competing bid.

Following receipt of the initial conditional proposal, the IDC requested that its advisers seek alternative proposals for the Australian portfolio. A significant number of listed entities and wholesale investors in Australia, Asia, the United Kingdom and the United States were approached and were asked to provide expressions of interest. No expressions of interest were received.

Since the announcement of the initial conditional proposal on 29 August 2011, there has been an opportunity for any other interested party to make a competing offer. No such offer has been made at the date of this report. Although a competing offer may be made at any time before the meeting, there appears little likelihood that an alternative bidder will make a more attractive offer for the Australian portfolio.

It would be open to scheme unitholders to vote against the Proposal in the hope that the Bidders would make a subsequent higher offer. However, this involves significant risks. There is no evidence that the Bidders would be prepared to pay a higher price. There have already been two increases in the offer price from \$2.39 (on 26 August 2011) to \$2.43 (on 5 October 2011) and to \$2.49 (on 5 December 2011) as a consequence of negotiations between the Bidders and the IDC and the total price increase has been modest (at 4.2%).

**4.3.3 Taxation Issues**

The analysis set out below outlines the major tax consequences of the Proposal and should be viewed as indicative only. It does not purport to represent formal tax advice regarding the taxation consequences of the Proposal for scheme unitholders. Further details on the tax consequences of the Proposal for Australian resident and non-resident unitholders are set out in the tax report prepared by Greenwood & Freehills Pty Ltd which is included in Section 6 of the Explanatory Memorandum. In any event, the tax consequences for scheme unitholders will depend on their individual circumstances. If in any doubt, scheme unitholders should consult their own professional adviser.

*Treatment of Distributions*

Distributions received from CHOML (including the special distribution of approximately \$0.65 per CQO unit received as part of the cash payment under the Proposal and distributions of the net sale proceeds from the sale of the United States portfolio) will be required to be included in the assessable income of an Australian resident scheme unitholder except to the extent that the distributions represent tax deferred income or exempt income. Australian resident scheme unitholders may be entitled to a foreign income tax offset in respect of foreign taxes incurred by CQO on income that is distributed to them.

<sup>34</sup> Calculated as \$11 million divided by the pro forma Australian unaudited NTA as at 31 December 2011 of \$1,275.5 million.

### GRANT SAMUEL



CHOML will be liable to deduct withholding tax from any distribution made to non-resident scheme unitholders:

- at the rate of 30% (or 7.5% if the non-resident scheme unitholder is a resident of a country which Australia has determined to be an “exchange of information country”) in relation to amounts representing Australian source income (such as rental income) and capital gains in respect of Australian property; and
- at the rate of 10% in relation to amounts representing interest income.

#### *Capital Gains Tax*

As CQO did not list on the ASX until December 1993, all scheme unitholders will have acquired their CQO units after 19 September 1985, and will realise a capital gain or a capital loss on disposal of their CQO units.

For those Australian resident scheme unitholders that hold their CQO units on capital account:

- their cost base will be reduced by any tax deferred amounts received from CQO (including any tax deferred components of the special distribution estimated to be \$0.65 per CQO unit received as part of the cash payment under the Proposal and distributions of the net proceeds from the sale of the United States portfolio);
- the capital proceeds received will include the cash payment estimated to be \$1.84 per CQO unit received from the Bidders as part of the cash payment under the Proposal as well as any portion of the special distribution included in the scheme unitholder's assessable income; and
- the amount of up to \$0.15 per CQO unit of the net proceeds from the sale of the United States portfolio withheld to meet contingent liabilities, which will not be received until at least six months after the scheme implementation date, will be treated as an earnout arrangement and the tax consequences will depend on which position the scheme unitholder chooses to adopt:
  - under the current law, the earnout right is treated as a separate right for capital gains tax purposes. The market value of the earnout right will be included as part of capital proceeds and the cost base for the purposes of working out any future capital gain or loss on disposal of the earnout right (which will be in the 2013 financial year) will be equal to the market value of the earnout right included in the capital proceeds; or
  - under the proposed law, the earn out right is not treated as a separate right. All proceeds are considered to be related to the disposal of the CQO units and a scheme unitholder will be required to reduce the cost base of the CQO units as and when amounts they are due to receive become certain. After the cost base is reduced to zero, the scheme unitholder will realise a capital gain on all further amounts received in the year of receipt (in this case, any capital gain will be split between the 2012 and 2013 financial years but any capital loss will not be realised until the 2013 financial year).

Scheme unitholders may need to review their positions and seek amendments to their tax returns if the position they choose to adopt does not remain/become law.

A capital gain should arise where the capital proceeds received are greater than the scheme unitholder's cost base, although anti-overlap provisions will apply to reduce the capital gain to the extent that the special distribution constitutes assessable income. CQO unitholders who have held their CQO units for at least 12 months prior to the scheme implementation date should be entitled to discount the amount of any capital gain (after the application of capital losses) by 50% (for individuals and trusts). A capital loss should arise where the capital proceeds are less than the scheme unitholder's reduced cost base, although in this situation, any taxable component of the special distribution will not increase the capital loss and this amount will be included in assessable income and reduce the capital loss available.

Non-resident scheme unitholders who hold their CQO units on capital account should not be subject to Australian capital gains tax on any gain derived from the disposal of their CQO units.



#### 4.3.4 Other Matters

##### *Management Agreement between Charter Hall Group and the Bidders*

Under the Proposal, Charter Hall Group will continue to manage the Australian portfolio under a new management agreement which has been negotiated between Charter Hall Group and the Bidders.

The relevance of the terms of the new management agreement is the potential diversion of value to Charter Hall Group in circumstances where that value might otherwise have been available to scheme unitholders.

Grant Samuel has been provided with a summary of the fee structure that will apply under the new management agreement. This information has not been disclosed as Charter Hall Group regards it as confidential and commercially sensitive. On the basis of the information provided, the management agreement entered into between Charter Hall Group and the Bidders appears to have a similar fee structure and quantum to the existing arrangements between CQO and Charter Hall Group. As a result, the new management agreement does not result in any diversion of value from scheme unitholders to Charter Hall Group.

##### *Delay in Receipt of a Portion of Proceeds from the Sale of the United States Portfolio*

The Bidders are only seeking to acquire CQO's Australian portfolio but are doing so by acquiring the units in CQO once the sale of the United States portfolio has been completed (completion of the sale of the United States portfolio is a condition to implementation of the Proposal). The Bidders are not prepared to take on the risk of having to meet any contingent liabilities associated with the sale of the United States portfolio (that are ultimately required to be met by CQO).

As a result, under the Proposal, CHOML will withhold a portion of the United States sales proceeds from distribution to CQO unitholders to meet potential contingent liabilities in relation to, amongst other things, the sale of the United States portfolio and the costs associated with these arrangements. While some portion of this scheme contingent consideration estimated at up to US\$80 million may be distributed to CQO unitholders on the scheme implementation date if no additional contingent liabilities have been identified, some amount will be withheld for at least six months after the scheme implementation date.

While the quantum of the contingent liabilities paid would be no different in the absence of the Proposal, it is likely that CQO would have distributed all of the net proceeds from the sale of the United States portfolio by 30 March 2012. The Proposal therefore results in a delay in the receipt of a portion of the proceeds from the sale of the United States portfolio and CQO incurring additional costs associated with these arrangements. However:

- the impact of the delay in receipt of US\$80 million (being the worst case scenario) is less than \$0.01 per CQO unit. To the extent that less than US\$80 million is ultimately withheld, the impact is even less; and
- the costs associated with the arrangements are currently estimated by CHOML to be less than \$0.6 million and are immaterial in the context of the Proposal.

There are also tax consequences associated with the delay in receipt of a portion of the proceeds from the sale of the United States portfolio. The Proposal will result in scheme unitholders deferring part of any capital gain to the 2013 financial year, with a larger portion being deferred if the proposed law becomes law (which is a benefit) and potentially (if the proposed law becomes law) deferring all of any capital loss to the 2013 financial year (which is a disadvantage).

##### *Transaction Costs*

CHOML has estimated that the total transaction costs of the Proposal for CQO will be approximately \$5 million. These costs are one off costs and are not material in the overall context

G R A N T   S A M U E L

■   ■   ■

of the Australian portfolio. Total transaction costs represent approximately 0.4% of the pro forma Australian unaudited NTA or \$0.01 per CQO unit.

Of the total transaction costs, approximately \$3.2 million will have been incurred or committed at the time that scheme unitholders vote on the Scheme. The additional transaction costs that will be incurred if the Scheme proceeds are approximately \$1.8 million.

#### **4.4 Unitholder Decision**

The decision whether to vote for or against the Proposal is a matter for individual scheme unitholders based on each scheme unitholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from unitholder to unitholder. If in any doubt as to the action they should take in relation to the Proposal, scheme unitholders should consult their own professional adviser.

## **5 Qualifications, Declarations and Consents**

### **5.1 Qualifications**

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services, manages specialist funds and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 470 public independent expert and appraisal reports.

The person responsible for preparing this report on behalf of Grant Samuel is Jaye Gardner BCom LLB (Hons) CA SF Fin. Celeste Oakley BEc LLB CFA F Fin assisted in the preparation of the report. Each has a significant number of years of experience in relevant corporate advisory matters. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### **5.2 Disclaimers**

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is fair and reasonable to, and in the best interests of, scheme unitholders. Grant Samuel expressly disclaims any liability to any CQO unitholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by CHOML as responsible entity for CQO and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

### **5.3 Independence**

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with CQO, Charter Hall Group, CHOML, Reco or PSP or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that it prepared an independent review of alternative strategies for the independent directors of CHOML as responsible entity for CQO in July 2011. Grant Samuel received a fixed fee of \$270,000 plus reimbursement of out of pocket expenses for this assignment.

Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$250,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

## Attachment F - Independent Expert's Report

G R A N T S A M U E L

■ ■ ■

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

### 5.4 Declarations

CHOML (on behalf of CQO) has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. CHOML (on behalf of CQO) has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by CHOML (on behalf of CQO) are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to CHOML. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

### 5.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to unitholders of CQO. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

### 5.6 Other

The accompanying letter dated 10 February 2012 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

10 February 2012

*Grant Samuel & Associates*





## Appendix 1

### Market Evidence – Listed REITs

#### 1 REIT Transactions

The premiums/(discounts) to net tangible assets (“NTA”) and exit yields for recent listed REIT control transactions (post the global financial crisis) are set out in the table below:

Recent Selected Australian Listed REIT Transactions						
Date	Target	Transaction	Consider- ation <sup>1</sup> (\$ millions)	Premium/ (discount) to NTA <sup>2</sup>	Exit Yield <sup>3</sup>	
					Historical	Forecast
Jan 12 (pending)	Abacus Storage Fund	Merger with Abacus Property Group	132.4	(8.2)%	7.4%	na <sup>4</sup>
Apr 11	Valad	Cash offer by Blackstone Real Estate Advisers	208.5	(22.1)%	nmf <sup>5</sup>	nmf
Apr 11	Rabinov	Scrip offer by Growthpoint	49.6	(4.3)%	10.0%	8.6%
Dec 10	ING Industrial Fund	Cash offer by Goodman Group led consortium	1,394.6	(1.5)%	3.0%	6.0% <sup>6</sup>
Jul 10	MacarthurCook	Cash offer by Commonwealth REIT	43.3	(32.1)%	4.1%	4.1%
Apr 10	Westpac Office Trust	Cash/scrip offer by Mirvac	417.4	3.1%	7.7%	7.7%
Oct 09	Mirvac Real Estate Investment Trust	Cash and scrip/scrip offer by Mirvac	372.7	(29.9)%	5.5%	5.4%
May 09	Orchard Industrial Property Fund	Recapitalisation by Growthpoint	255.4	(11.9)%	50.6%	15.6% <sup>7</sup>

Source: Grant Samuel analysis<sup>8</sup>

A brief summary of each transaction is set out below:

#### *Merger of Abacus Storage Fund with Abacus Property Group*

On 13 January 2012, Abacus Property Group announced the potential to merge with Abacus Storage Fund (“Abacus”). Abacus Property Group is owned 19.96% of Abacus. If approved, transaction will result in The Kirsh Group (which has a relevant interest of 39.2% in ABP and is therefore deemed to have a relevant interest of 19.96% in Abacus) increasing its interest in Abacus initially to 35.74 % (and ultimately to 42.21%). The announcement followed a strategic review of Abacus Property Group’s funds management business in response to gearing for Abacus approaching increasingly tight bank covenants and uncertainty regarding the ability of Abacus to refinance or repay debt in August 2013. Abacus is an unlisted stapled entity comprising one unit in Abacus Storage Property Trust and one share in Abacus Storage Operations Limited. There is presently no mechanism for the redemption of

<sup>1</sup> Implied value of 100% of entity acquired.

<sup>2</sup> NTA includes provision for distribution, where applicable.

<sup>3</sup> Exit yield has been calculated as distribution per unit divided by consideration per unit.

<sup>4</sup> As a result of Abacus’ need to meet debt covenants, its ability to pay a distribution in future is uncertain.

<sup>5</sup> nmf = not meaningful. Valad had not paid a distribution since 2008.

<sup>6</sup> IIF forecast distribution includes two quarters of actual distributions and one quarter of broker consensus forecasts and assumes the fourth quarter distribution is the same as for the previous three quarters.

<sup>7</sup> Orchard forecast distribution includes actual distributions for the first two quarters of the financial year. No distributions were paid in the third quarter as the distribution period was changed from quarterly to half yearly. Orchard considered that it was uncertain whether a distribution would be paid for the second half of the year if the transaction did not proceed as it was likely that it would be in breach of banking covenants. Consequently, the forecast distribution assumes nil distributions in relation to the second half of the year.

<sup>8</sup> Grant Samuel analysis based on data obtained from IRESS and REIT announcements.

### GRANT SAMUEL



securities and, therefore, the securities are illiquid. Abacus is externally managed by a subsidiary of Abacus Property Group. Property management is conducted by Storage King. As at 30 June 2011, its property portfolio comprised 41 self-storage properties valued at \$332 million including 30 properties in Australia and 11 properties in New Zealand as well as one small commercial property. Unlike other property sectors, the self-storage sector is characterised by short-term rental of storage space with no long-term contracts. Therefore, Abacus' property income is potentially subject to short-term fluctuations and has a greater degree of risk. The relatively high discount to NTA likely reflects the distressed nature of the transaction, greater risk in Abacus property income and illiquidity of securities. The ability to pay distributions in future is uncertain, given Abacus' need to meet bank debt covenants.

#### ***Acquisition of Valad Property Group by Blackstone Real Estate Advisors LLC***

On 29 April 2011, Valad Property Group ("Valad") announced that it had entered into a scheme implementation agreement with Blackstone Real Estate Advisors LLC. Valad was engaged in property investment in Australia and New Zealand (68% of EBITDA for the half year ended 31 December 2010), European funds management (22% of EBITDA) as well as development and co-investments. As at 31 December 2010, its property portfolio comprised 27 properties valued at \$568.7 million in the office (31% of value), industrial (28%), bulky goods (24%) as well as hotel and residential sectors which were predominantly located in Australia (88%) as well as New Zealand (12%). The weighted average lease expiry was 4.4 years and occupancy was 97%. Valad was arguably in distress with relatively high balance sheet gearing of 51% as at 31 December 2010. It had not paid a distribution since 2008.

#### ***Acquisition of Rabinov Property Trust by Growthpoint Properties Australia***

On 13 April 2011, Rabinov Property Trust ("Rabinov") announced that it had entered into an implementation agreement with Growthpoint Properties Australia ("Growthpoint") whereby Growthpoint would acquire all of the units in Rabinov for scrip consideration. As at 31 December 2010, Rabinov had a portfolio of 12 properties valued at \$234.9 million in the office (70% of value), industrial (28%) and retail (2%) sectors located in Victoria (71%), South Australia (15%), Tasmania (12%) and Queensland (3%). Rabinov's office property portfolio comprises relatively low quality assets. The weighted average lease expiry was 6.6 years and occupancy was 100%. Rabinov was owned 83.4% by Rabinov Holdings Pty Limited and its related parties. Rabinov had balance sheet gearing of 77% as at 31 December 2010.

#### ***Acquisition of ING Industrial Fund by Goodman Group Led Consortium***

On 23 December 2010, ING Industrial Fund ("IIF") announced that it had received a proposal from Goodman Group. As at 31 December 2010, IIF had a portfolio of 61 industrial properties valued at \$2.5 billion which were located in Australia (86% of value) and Western Europe (14%). The weighted average lease expiry was 4.5 years and occupancy of 98%. As at 31 December 2010, IIF had balance sheet gearing of 27% and look through gearing of 42%. No distribution was paid in the first half of the 2010 financial year (historical period). Consequently, the forecast exit yield exceeds the historical exit yield.

#### ***Acquisition of MacarthurCook Industrial Property Fund by Commonwealth REIT***

On 12 July 2010, MacarthurCook Industrial Property Fund ("MacarthurCook") announced that it had received a proposal from Commonwealth REIT to acquire all of the units in the fund for cash consideration. As at 30 June 2010, MacarthurCook had a portfolio of 10 industrial properties valued at \$106.1 million located throughout Australia. The weighted average lease expiry was 4.6 years and occupancy was 85%. MacarthurCook was in financial distress although gearing was moderate at 40% at 30 June 2010.

#### ***Acquisition of Westpac Office Trust by Mirvac Group***

On 28 April 2010, Westpac Office Trust ("WOT") announced it had received a proposal from Mirvac Group ("Mircvac") to acquire the units and instalment receipts of WOT for cash or scrip. As at 31 December 2009, WOT had a portfolio comprising 7 office properties valued at \$1.1 billion which were predominantly (94%) located in New South Wales. The weighted average lease expiry was 8.7 years

## GRANT SAMUEL



and occupancy was 99%. Approximately 84% of the portfolio was classed A-grade and 94% of rental income was received from investment grade tenants. As at 31 December 2009, gearing was relatively high at 62%.

### *Acquisition of Mirvac Real Estate Investment Trust by Mirvac Group*

On 12 October 2009, Mirvac Real Estate Investment Trust ("MREIT") announced that it had received an offer from Mirvac to acquire the remaining 75.4% interest in MREIT for scrip or a combination of cash and scrip. MREIT was externally managed by a subsidiary of Mirvac, which owned 24.6% of MREIT. As at 30 June 2009, MREIT had a property portfolio comprising 35 properties valued at \$1.0 billion in the retail (36% of value), commercial (31%), industrial/business park (17%) and hotel (16%) property sectors located primarily in Australia (99%). The weighted average lease expiry was 4.8 years and occupancy was 94%. MREIT is also engaged in development activities. MREIT was in financial distress and as at 30 June 2009, MREIT had balance sheet gearing of 45% and look through gearing of 49%.

### *Recapitalisation of Orchard Industrial Property Fund by Growthpoint Properties Limited*

On 18 May 2009, Orchard Industrial Property Fund ("Orchard") announced that it had entered into an implementation agreement with Growthpoint to recapitalise and restructure the trust. The transaction would result in Growthpoint owning between 60% and 78% of Orchard. As at 31 May 2009, Orchard had a portfolio comprising 23 industrial properties valued at \$650 million and located throughout Australia. The weighted average lease expiry was 11 years and occupancy was 98%. Orchard was owned 41.5% by Orchard Diversified Property Fund. Orchard was in financial distress and as at 31 December 2008, had relatively high gearing of 66%. The high historical exit yield reflects higher distributions from the pre-crisis 2008 financial year. Distributions of 1.25 cents were paid in each of the first and second quarters of the 2009 financial year and represented approximately 62% of the quarterly distributions for the 2008 financial year. In March 2009, the distribution policy was changed from quarterly to half yearly (such that there was no distribution in the March quarter of 2009). If the transaction did not proceed, it was uncertain whether a distribution would be paid for the half year to 30 June 2009 since it was likely Orchard's loan-to-value ratio would exceed debt covenants and it would be necessary to reduce gearing, including through asset sales and the suspension of distributions. Therefore, the forecast exit yield is calculated based on a distribution of 2.5 cents for the 2009 financial year.

## 2 Listed Office REITs

The trading parameters for selected Australian listed office REITs are set out in the table below:

Sharemarket Ratings of Selected Australian Listed Office REITs						
Trust	Market Capitalisation (\$ millions)	Premium/(discount) to NTA <sup>9</sup>	Distribution Yield <sup>10</sup>			Forecast Distribution Growth Per Annum (2011-2014)
			Historical	Forecast year 1	Forecast year 2	
CQO	1,430.6	(22.9)%	7.0%	7.6% <sup>11</sup>	na	na
GPT	5,536.9	(15.9)%	5.3%	5.9%	5.9%	5.2%
Dexus	4,330.9	(11.4)%	5.8%	6.0%	6.1%	3.8%
Mirvac	4,237.1	(23.5)%	6.6%	6.7%	7.1%	5.8%
Commonwealth Property	2,341.8	(11.7)%	5.6%	6.0%	6.1%	4.6%
Investa	1,687.5	(13.0)%	6.1%	6.1%	6.3%	1.8%

Source: Grant Samuel analysis<sup>12</sup>

<sup>9</sup> NTA excludes deferred tax liabilities and is after providing for the latest quarterly distribution to the extent that this distribution was not provided for in the balance sheet.

<sup>10</sup> Distribution yield calculated as distribution per unit divided by security price.

<sup>11</sup> CQO forecast distribution yield has been based on a forecast distribution for the year ending 30 June 2012 of \$0.22 (calculated by annualising the distribution for the six months ended 31 December 2011 of \$0.11).

### GRANT SAMUEL



The multiples shown above are based on sharemarket prices as at 7 February 2012 except for CQO which is shown as at 26 August 2011 (the last trading day immediately prior to the announcement that CQO had received the initial conditional proposal). All of the listed entities have a 30 June year end except for The GPT Group ("GPT") which has a 31 December year end.

A brief description of each company is set out below:

#### ***The GPT Group***

GPT is a stapled security structure comprising a unit in General Property Trust and a share in GPT Management Holdings Limited. A wholly owned subsidiary of GPT Management Holdings Limited is the Responsible Entity of General Property Trust. GPT Management also undertakes funds management for GPT Wholesale Office Fund and GPT Wholesale Shopping Centre Fund, which had \$5.3 billion funds under management at 30 June 2011. In the half year to 30 June 2011, property investment and development contributed 83% of EBIT while funds management contributed 15% of EBIT. GPT holds a diversified mix of Australian retail, office and industrial properties within its REIT vehicle and undertakes property development. Its core property portfolio was valued at \$8.7 billion at 30 June 2011 and comprised retail (61% of asset value), office (30%) and industrial (9%) properties. The \$2.6 billion office portfolio includes wholly owned properties and an investment in the GPT Wholesale Office Fund. Approximately 56% of the office portfolio is classed Premium grade (the largest proportion of any Australian REIT), with the remainder classed A-Grade. Office properties are located in the Sydney, Melbourne, Brisbane and Canberra CBD markets. As at 30 September 2011, the office portfolio had a total occupancy of 98% and a weighted average lease expiry of 4.7 years. The GPT Group development pipeline currently has \$1.8 billion of projects underway and planned with an additional \$1.5 billion of opportunities in the pipeline. GPT does not undertake property management, however, from February 2012, it intends to internalise the property management function of its wholly owned industrial and office assets, extending this its broader portfolio over time, including assets held by the GPT Wholesale Office Fund. In 2011, GPT announced a buyback of up to 5% of issued securities to be funded by proceeds from the sale of non core assets such as the US Seniors portfolio.

#### ***Dexus Property Group***

Dexus Property Group ("Dexus") has a stapled security structure comprising one unit of each of Dexus Industrial Trust, Dexus Office Trust, Dexus Diversified Trust and Dexus Operations Trust. Dexus Funds Management Limited is the responsible entity for each of the entities within Dexus and is engaged in third party funds management. Dexus invests in office and industrial properties within Australia and a number of global industrial properties. It also develops and manages Australian properties. As at 30 September 2011, the portfolio was valued at \$7.6 billion and comprised 59% Australian office, 22% Australian industrial and 17% United States industrial properties. The remaining 2% of the portfolio is invested in European industrial properties which are being divested. Approximately 91% of Dexus' \$4.5 billion<sup>13</sup> office portfolio is classified as Premium or A-Grade. Office exposure is spread across all major capital cities (including an office building in Auckland) and has a total occupancy rate of 96% and a weighted average lease expiry of 5.2 years. In addition to divesting the final 13 European properties (worth \$100 million), Dexus also intends to divest its central United States industrial portfolio and redeploy the capital in the business.

#### ***Mirvac Group***

Mirvac is an internally managed, diversified property group which is engaged in property investment, development, hotel management and funds management. Mirvac aims to achieve 80% of operating profit after tax from property investment and 20% from property development throughout the cycle. It has a stapled security structure, comprising Mirvac Property Trust and Mirvac Limited (the manager of Mirvac Property Trust). As at 30 September 2011, the property portfolio was valued at \$5.7 billion.

<sup>12</sup> Grant Samuel analysis based on data obtained from IRESS, company announcements and, in the absence of company published financial forecasts, broker's reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker's reports utilized for each transaction depends on analyst coverage, availability and corporate activity

<sup>13</sup> DEXUS manages an additional \$2.1 billion of office properties for third parties.

## GRANT SAMUEL



The weighting to the office sector was 57% of property value with the remainder primarily invested in retail (30%) and other properties (i.e. industrial, indirect investments, car parks and a hotel) (13%). Approximately 89% the office portfolio is classified Premium or A-Grade buildings. Office exposure is primarily concentrated in the Sydney and Melbourne CBD markets. The office portfolio has an occupancy rate of 98% and a weighted average lease expiry of 4.5 years and approximately 59% of the portfolio is less than five years old. In 2010, Mirvac acquired the Westpac Office Trust and more recently, has undertaken a number of non-core commercial asset disposals and non-core land sales. The Mirvac development pipeline currently contains approximately \$1.9 billion of projects and typically comprises mainly retail development (80%) as well as commercial development (20%). In the 2011 financial year, an amount of \$296 million was expensed as a provision for loss on development inventories.

### ***Commonwealth Property Office Fund***

The Commonwealth Property Office Fund ("Commonwealth Property") is externally managed by Colonial First State Global Asset Management and invests exclusively in office properties. The portfolio comprises 29 office assets, with a gross asset value of \$3.9 billion as at 30 June 2011. Most properties are classed A Grade (78%) with a small proportion of Premium (11%) and the remaining exposure classed B Grade or lower. The portfolio is geographically diverse with properties located in capital cities and suburban locations throughout Australia and has a total occupancy rate is 97% and weighted average lease expiry of 5.3 years. Commonwealth Property has bought and sold almost \$1.8 billion of property over the past four years making it one of the most active managers in the A-REIT sector. In 2011, Commonwealth Property divested a number of office buildings located in Perth and Sydney and acquired several Melbourne office properties. Commonwealth Property's development pipeline currently contains approximately \$730 million of projects located across Brisbane, Sydney and Melbourne.

### ***Investa Office Fund***

Investa Office Fund ("Investa") is externally managed by Investa Property Group and invests exclusively in office properties. The portfolio comprises 23 office properties, with a gross asset value of \$2.6 billion as at 30 June 2011 which are located in Australia (65% of asset value), Europe (18%) and the United States (17%). IOF intends to divest all remaining offshore properties<sup>14</sup> in 2012. The \$1.7 billion Australian portfolio contains 16 properties and is primarily comprised of A-Grade buildings (78%) with the remainder classed B-Grade (22%) and does not include any Premium grade buildings. The portfolio is geographically diverse with properties located across Sydney, Brisbane, Melbourne, Perth and Canberra. The total occupancy rate is 93% and the weighted average lease expiry is 4.9 years. Investa conducted an on-market buyback of 10% of units on issue between August 2011 and December 2011 with the intention of improving the NTA per unit. In addition to the continued divestment of Investa's \$0.9 billion of off-shore properties, other planned initiatives include consolidating units on issue, providing a sale facility for small unitholdings and finally, internalisation of Investa's responsible entity.

---

<sup>14</sup> With the exception of the Dutch Office Fund investment.

## GRANT SAMUEL



### Appendix 2

#### Market Evidence –Management Rights

There are few listed managers of property funds and real estate assets in Australia. Charter Hall Group Limited has substantial activities outside property fund and real estate asset management (i.e. property investment and development activities) and APN Property Group Limited is experiencing financial distress. Consequently, Grant Samuel has focused on transaction evidence rather than valuation evidence from sharemarket trading.

There has been considerable transaction activity in Australia involving the acquisition of real estate asset and property funds management rights in recent years. However, the impact of the global economic downturn (which commenced in mid 2007) is important to consider when reviewing recent transaction activity.

Prior to 2007, there was significant consolidation in the listed property trust sector in Australia the rationale for which was to access the benefits of size and scale (e.g. increased liquidity, greater diversification and a lower cost of capital). During this period, the availability of funds for growth increased the number of listed property groups (including investment, development and funds management activities) and, due to the limitations of the relatively small Australian market, resulted in a focus on the development of Australian domiciled investment funds holding international real estate assets or on funds managers establishing and managing investment funds listed in overseas jurisdictions. This period witnessed a significant level of corporate activity and transaction multiples were relatively high. In particular, transactions involving entities with active property development or syndication activities (e.g. Macquarie Goodman and Westfield) were undertaken at higher earnings multiples and higher percentages of funds under management ("FUM") than transactions relating to management rights associated with more passive real estate asset management and property fund management services.

The global economic downturn has had a significant impact on the property funds management sector. The decrease in the availability of finance and reductions in property prices has resulted in substantial financial distress in the sector. Consequently, recent transactions have generally been undertaken at lower earnings multiples and percentages of FUM.

A selection of relevant transactions since 2007 involving real estate asset and property management rights in Australia for which financial information is available is set out below:

Recent Transaction Evidence							
Date	Target	Transaction	Consideration <sup>1</sup> (\$millions)	FUM <sup>2</sup> (\$millions)	Consideration /FUM (%)	EBIT Multiple <sup>3</sup> (times)	
						historical	forecast
Apr 2011	European funds management business of Valad Property Group	Acquisition by Blackstone Real Estate Advisors	24.9	3,800	1.0%	5.5	na
Oct 2010	Management rights for ING Industrial Fund	Acquisition by Goodman Group led consortium	22.5	2,492	0.9%	na	na
Oct 2010	Becton Investment Management Limited	Acquisition by 360 Capital Group (prior to May 2011 restructuring proposal)	6.0 <sup>4</sup>	900	0.7%	0.6	na
May 2010	Trinity Funds Management Limited	Acquisition of 50% by Clarence Property Corp, Limited	10.0	700	1.4%	4.6	na
Apr 2010	Management rights for Westpac Office Trust	Acquisition by Mirvac Group	15.0	1,154	1.3%	na	na

<sup>1</sup> Implied value if 100% of company or business had been acquired.

<sup>2</sup> FUM = assets under management.

<sup>3</sup> Represents gross consideration divided by EBIT. EBIT is earnings before interest, tax, investment income and significant items. However, in some transactions only EBITDA (i.e. earnings before interest, tax, depreciation, amortisation, investment income and significant items) is available. As property and funds management businesses are not typically capital intensive in some instances EBIT multiples have been calculated by reference to EBITDA.

<sup>4</sup> Consideration is sourced from the independent expert report for the May 2011 Becton Property Group Limited restructuring proposal and independent expert report for the Valad Property Group transaction. Consideration included an upfront cash payment of \$2.0 million and Becton was entitled to 30% of accrued management fees at settlement date, collected over a three year period and 30% of exit fees over the next three years.

## GRANT SAMUEL



Recent Transaction Evidence							
Date	Target	Transaction	Consideration <sup>1</sup> (Smillions)	FUM <sup>2</sup> (Smillions)	Consideration /FUM (%)	EBIT Multiple <sup>3</sup> (times)	
						historical	forecast
Apr 2010	Macquarie DDR Management LLC	Acquisition of 50% by EPN GP, LLC as part of recapitalisation	6.9	1,629	0.4%	na	na
Feb 2010	Real estate management platform for Macquarie Group	Acquisition by Charter Hall Group	108.0	7,186	1.5%	4.3	7.7
Jun 2009	Macquarie Leisure Management Limited	Acquisition by a subsidiary of Macquarie Leisure Trust	17.0	843	2.0%	8.8	na
May 2009	Management rights for Orchard Industrial Property Fund	Acquisition of 50.1% by Growthpoint Properties Limited as part of recapitalisation	6.2	750	0.8%	na	5.2 <sup>5</sup>
Apr 2009	Fund management and asset management rights for Babcock & Brown Japan Property Trust	Acquisition by Babcock & Brown Japan Property Trust	22.1	2,300	1.0%	na	na
Oct 2008	Management rights for Babcock & Brown Communities Group	Acquisition by Lend Lease Corporation as part of a recapitalisation	17.5	1,414	1.2%	na	na
May 2008	GEO Management Limited	Acquisition by GEO Property Trust	2.5	810	0.3%	0.7	na
Feb 2008	DB RREEF Holdings Pty Limited	Acquisition of remaining 50% interest by DB RREEF Trust	260.0	15,200	1.7%	7.7	10.5
Dec 2007	Funds management business of Lachlan Property Group	Acquisition by Becton Property Group	42.4	450	9.4%	11.0	na
Oct 2007	Rubicon Holdings (Aust) Limited <sup>6</sup>	Acquisition by Allco Finance Group Limited of remaining 79.6% interest	320.2-335.2	5,253	6.0-6.5%	7.2-7.6	na
Sep 2007	Resolution Capital Ltd	Acquisition of 40% by Pinnacle Investment Management Ltd	47.0	2,900	1.6%	na	na
Jun 2007	Multiplex Capital's funds management business	Takeover of Multiplex Group by Brookfield Asset Management Inc	375.0	5,800	6.5%	7.0	15.4
Jun 2007	Multiplex Capital's property management business	Takeover of Multiplex Group by Brookfield Asset Management Inc	60.0	na	na	10.7	11.1
Jun 2007	Halverton Real Estate Investment Management Limited <sup>7</sup>	Acquisition of 75% by GPT Group	125.3	2,200	5.7%	na	na
Apr 2007	Macquarie ProLogis Management	Acquisition of 50% by ProLogis	52.8	2,133	2.5%	na	na

Source: Grant Samuel analysis<sup>8</sup>

When considering these multiples it is important to have regard to:

- the financial information in a number of transactions is limited and does not allow detailed analysis to be undertaken. Often the only data available is the price and the value of assets under management – consequently the only valuation parameter able to be calculated is the percentage of assets under management. As a valuation methodology this rule of thumb is unsatisfactory as it generally fails to take account of the substantial differences in profitability that managers enjoy depending on the type of assets managed (e.g. wholesale, retail), the form of management activity (e.g. whether it includes both asset

<sup>5</sup> Forecast EBIT is sourced from the independent expert report prepared for the Orchard Industrial Property Fund transaction and based on forecast management fee savings (i.e. does not appear to include expenses). Consequently, the EBIT multiple may be overstated.

<sup>6</sup> Multiples calculated by reference to the independent expert's assessment of base consideration (cash and shares) without upside option exercised. Revenue, EBITDA and EBIT multiples calculated based on 2006-07 proforma normalised figures.

<sup>7</sup> Halverton is a European based fund and asset manager of European real estate. Following this acquisition GPT Group owned 100%.

<sup>8</sup> Grant Samuel analysis based on data obtained from IRESS, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



## Attachment F - Independent Expert's Report

G R A N T   S A M U E L

■   ■   ■

management and property management, development activities and syndication all of which impact staff level, revenue levels and costs), fee structure, scale and the degree of tenure involved in the provision of asset management services. The better parameter for valuation purposes for these businesses is the implied multiple of EBIT;

- multiples for transactions occurring after December 2007 are substantially lower than those which occurred earlier:
  - the percentage of FUM is below 2% (compared with 2-9%);
  - historical EBIT multiples are in the range 0.5-9 times (compared with 5-7 times); and
  - forecast EBIT multiples are in the range 5-11 times (compared with 11-15 times).

This decrease reflects both the impact of the global economic downturn and the nature of the transactions that have occurred since 2007;

- the transactions that reflect distressed situations include:
  - those that occurred as part of (or immediately prior to) recapitalisations or restructurings (e.g. Becton Investment Management Limited, Macquarie DDR Management LLC, Orchard Industrial Property Fund and Babcock & Brown Communities Group);
  - the Trinity Funds Management Limited transaction occurred as part of substantial asset sales to reduce debt;
  - the internalisation of management for the purpose of separating from financially distressed entities (e.g. Babcock & Brown Japan Property Trust's acquisition of its management rights from Babcock & Brown International Pty Limited and GEO Property Trust's acquisition of its management rights from MFS Group Limited);
  - sale of manager as part of a global deleveraging strategy (ING Real Estate Investment Management Asia/Pacific B.V.); and
  - the sale of managers of distressed U.S. or European assets (e.g. Macquarie DDR Management LLC and sale of the European funds management business for Valad Property Group); and
- other transactions that reflect distressed situations have occurred for nil consideration (e.g. acquisition of management rights for ING Office Fund announced in March 2011 and acquisition of management rights for Rabinov Property Trust announced April 2011);
- the multiples for transactions which have occurred after December 2007 and do not reflect distressed situations are generally in the range 1.5-2.0% of FUM, 4-9 times historical EBIT and 8-10.5 times forecast EBIT (but on very limited information). These transactions include the acquisition of management rights for Westpac Office Trust, the acquisition of the remaining 50% of DB RREEF Holdings Pty Limited and transactions which occurred as part of Macquarie Group's strategy of separating its business from satellite funds (i.e. real estate management platform of Macquarie Group, Macquarie Leisure Management Limited). However, a number of these transactions involve entities with only property funds management activities (e.g. Westpac Office Trust and Macquarie Leisure Management Limited). Prices paid for property funds management activities only are likely to be lower (and therefore represent a lower percentage of FUM) than for the management of both property funds and real estate assets. Information is not usually available to allow the consideration to be allocated between the activities undertaken.

# Corporate Directory

## Responsible entity

Charter Hall Office Management Limited ABN 75 006 765 206 (AFSL No 247075)  
Level 11, 333-339 George Street, Sydney, NSW 2000  
Fax + 61 2 8908 4040

## CHOML Directors

Roger Davis (Chairman, Independent Director)  
James Broadbent (Independent Director)  
Andrew Love (Independent Director)  
David Harrison (Director)  
David Southon (Director)

## Secretary of CHOML

Natalie Allen

## Legal adviser

Gilbert + Tobin  
Level 37, 2 Park Street, Sydney, NSW 2000

## Financial adviser

Merrill Lynch International (Australia) Limited  
Level 38, Governor Phillip Tower, 1 Farrer Place Sydney, NSW 2000

## Registry

Link Market Services Limited  
Level 12, 680 George Street, Sydney, NSW 2000

## Unitholder information line

1300 303 063 (within Australia) or +61 2 8280 7134 (outside Australia)

