challenger

Appendix 4D - Results for announcement to the market

Half-year results for the period ended 31 December 2013

Challenger Diversified Property Group (CDI)

2.1/2.2/2.3 Revenue and profit from ordinary activities and net profit for the period attributable to members:

	Half-year ended 31 Dec 13 $'000	Half-year ended 31 Dec 12 $'000	Change $'000	Change %
Revenue from ordinary activities	47,155	47,340	(185)	(0.4%)
Normalised earnings	23,869	22,913	956	4.2%
Adjusted for:				
Straight-lining of rental income/expense	(706)	100		
Property, plant and equipment depreciation	(284)	(77)		
Fair value movements (properties and derivatives held and disposed)	(7,864)	(2,438)		
Foreign exchange gain	9	40		
Income tax credit	148	259		
Net profit after tax attributable to members	15,172	20,797	(5,625)	(27.0%)

2.4/2.5 Amounts per stapled unit of all distributions paid/payable during the period:

	Ordinary units (cents per unit)	Record date	Payment date
Interim distribution	9.20	31 December 2013	28 February 2014

2.6 Explanation of figures in 2.1 to 2.5

For an explanation of the above result refer to the attached Half-year financial report.

Additional information is contained in the Half-Year market release and investor presentation lodged with the ASX on 4 February 2014.

3.0 Net tangible assets and net asset value per stapled unit:

	31 Dec 13 ($ per unit)	31 Dec 12 ($ per unit)	Change %
Net tangible assets (NTA) per unit	2.71	2.74	(1.1%)
Net asset value (NAV) per unit	2.72	2.75	(1.1%)

4.0 No control has been gained or lost over another entity during the half-year.

5.0 Details of distribution:

	Ordinary units (cents per unit)	Payment date	Total distribution $'000
Interim distribution	9.20	28 February 2014	19,697

6.0 No distribution reinvestment plan was in operation for the period.

7.0 No associates or joint venture transactions were entered into during the period.

8.0 Not applicable.

9.0 Not applicable.

Andrew Brown
Company Secretary

4 February 2014

Date

Challenger Diversified Property Group

Comprising the stapled units:
Challenger Diversified Property Trust 1 (ARSN 121 484 606)
Challenger Diversified Property Trust 2 (ARSN 121 484 713)

and

Challenger Diversified Property Trust 2

and its controlled entities

Financial Report

For the half-year ended 31 December 2013

Table of contents

Directors' report

The Directors of Challenger Listed Investments Limited (CLIL), the Responsible Entity of the Challenger Diversified Property Trust 1 (CDPT1) and Challenger Diversified Property Trust 2 (CDPT2), collectively known as the Challenger Diversified Property Group (herein known by its ASX code 'CDI'), submit their report together with the financial report for CDI and the financial report for the Challenger Diversified Property Trust 2 and its controlled entities (herein referred to as CDI2), for the half-year ended 31 December 2013.

Principal activities

The principal activity of CDPT1 (passive trust) during the period was investing in an office, retail and industrial property portfolio, with CDPT2 (active trust), operating a car park business.

Trust information

CDI consists of two stapled Australian registered managed investment schemes: CDPT1 and CDPT2. Each security consists of one unit in CDPT1 and one unit in CDPT2. Units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other.

CDPT1 has been identified as the parent entity of CDI.

CLIL, the Responsible Entity of CDPT1 and CDPT2, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 15, 255 Pitt Street, Sydney NSW 2000.

Directors' summary

The following persons held office as Directors of CLIL during the half-year and up to the date of this report:

- Michael Cole - Chair;
- Geoff McWilliam;
- Ian Moore;
- Brendan O'Connor;
- Rob Woods; and
- Phil Peters (alternate to Rob Woods).

Directors' report (continued)
Operating and financial review

Financial Performance

CDI provides investors with exposure to a diversified portfolio of quality, well located properties which offer stable income returns and potential for capital growth. With total assets of $887.7 million at 31 December 2013, CDI holds investment interests in 27 office, industrial and retail properties located in Australia and France as well as a development portfolio comprising a single industrial land bank.

In addition, CDI holds a leasehold interest in Sydney's Domain Car Park, which expires in 2033.

CDI performance

Normalised EPU increased by 4% to 11.1 cents, reflecting higher net property income (excluding straight-lining), decreased variable interest rates and lower margins.

Net profit after tax (statutory profit) decreased by 27% to $15.2 million (2012: $20.8 million). Statutory profit benefited from positive fair value adjustments relating to interest rate swaps. This was more than offset by fair value decreases in the property portfolio after allowing for capital expenditure, lease incentives and rent straight-lining.

Reconciliation of CDI and CDI2 normalised earnings to net profit/(loss) after tax [1]:

	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Normalised earnings	**23,869**	**22,913**	**(18)**	**(16)**
Straight-lining of rental income/(expense)	(706)	100	(634)	(710)
Property, plant and equipment depreciation	(284)	(77)	-	-
Fair value movements (properties and derivatives held and disposed)[2]	(7,864)	(2,438)	-	-
Foreign exchange gain/(loss)	9	40	-	-
Income tax (expense)/credit	148	259	159	261
Net profit/(loss) after income tax	**15,172**	**20,797**	**(493)**	**(465)**
Earnings per unit based on normalised earnings (cents)[2]	11.1	10.7	(0.0)	(0.0)
Earnings per unit based on net profit/(loss) attributable to unitholders of the parent entity (cents)[3]	7.3	9.9	(0.2)	(0.2)
Weighted average number of securities (basic and diluted) ('000)	214,101	214,115	214,101	214,115

[1] The above table has been reviewed by CDI's independent auditor.

[2] Earnings per stapled security is calculated using the normalised earnings attributable to stapled unitholders and the time weighted average number of ordinary stapled units outstanding during the year.

[3] Earnings per stapled security is calculated using the profit attributable to the unitholders of the parent entity and the time weighted average number of ordinary stapled units outstanding during the year.

Directors' report (continued)
Operating and financial review (continued)

Financial Position

Trust assets

At 31 December 2013, CDI held total assets of $887.7 million (2013: $888.2 million) and CDI2 held total assets of $2.0 million (2013: $1.9 million). The valuation basis of assets is set out in Note 2 to the financial report.

CDI's portfolio comprises interests in 27 properties located in Australia and France. Over the course of the year, all properties have been independently valued. The fair value of properties was relatively unchanged.

Borrowing facilities

In June 2013, CDI refinanced its entire $300 million debt facility. The refinancing presented an opportunity for CDI to lengthen its weighted average debt maturity and continue with a staggered maturity profile, whilst capitalising on a favourable lending market. At 31 December 2013, the weighted average term of debt maturity is 2.7 years and the weighted average cost of the debt reduced to 5.0%.

Contributed equity

As at 31 December 2013, CDI had 214.1 million (2012: 214.1 million) stapled units on issue.

Distributions

CDI's distribution policy is to distribute profit from operating activities (normalised earnings) adjusted for non-cash expenses, incurred and expected leasing costs, debt establishment fees and life-cycle capital expenditure. The distribution policy is always subject to the objective to distribute an amount that unitholders are presently entitled to.

Realised gains from the sale of assets are distributed on a discretionary basis and are determined having regard to capital management strategies, market conditions and tax consequences.

On 17 December 2013, CDI announced an estimated interim distribution of 9.2 cents per unit (2012: interim distribution of 8.6 cents per unit). The distribution amount of $19.7 million (2012: $18.4 million) will be paid on 28 February 2014.

CDI2 did not declare or pay a distribution to unitholders during the year (2012: Nil).

The following table applies CDI's distribution policy and reconciles the distribution to normalised earnings:

	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Normalised earnings	**23,869**	**22,913**	**(18)**	**(16)**
Non-cash expenses				
Amortisation of borrowing costs	233	215	-	-
Amortisation of incentives	2,500	1,565	-	-
Other transfers per distribution policy				
Life-cycle capital expenditure	(1,809)	(2,357)	-	-
Tenant incentives (including letting expenses)	(4,098)	(1,753)	-	-
Income tax expense	(11)	(2)	-	-
Total income available for distribution	**20,684**	**20,581**	**(18)**	**(16)**
Less: Current period undistributed (income)/loss carried forward	(987)	(2,168)	18	16
Distribution to unitholders	**19,697**	**18,413**	**-**	**-**

Directors' report (continued)

Operating and financial review (continued)

Going concern

As at 31 December 2013, CDI's balance sheet gearing was 29% (2013: 29%), and is within its targeted gearing range of 25% to 35%. Further details relating to the gearing are set out in Note 10 to the financial report.

CDI's net current liability position of $34.2 million (2013 $30.8 million) is able to be supported from Challenger Diversified Property Trust 1's undrawn debt facilities.

Challenger Diversified Property Trust 2 (CDI2) net current liability

As at 31 December 2013, Challenger Diversified Property Trust 2 has a net current liability of $0.3 million (2013: $0.3 million). To the extent that money is not available to Challenger Diversified Property Trust 2 to meet its current liabilities, the Challenger Diversified Property Trust 1 shall make sufficient funds available to enable it to pay its debts as and when they fall due.

Significant events after the balance date

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect CDI's and CDI2's:

- operations in future financial years;
- the results of those operations; or
- state of affairs in future financial years.

Rounding of amounts in the Directors' report and the financial report

CDPT1 and CDPT2 are registered trusts that are of the kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditor, Ernst & Young as set out on page 7.

This report is made in accordance with a resolution of the Directors of Challenger Listed Investments Limited.

Michael Cole
Chair

Sydney
3 February 2014

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Building a better working world

Auditor's Independence Declaration to the Directors of Challenger Listed Investments Limited as the Responsible Entity of Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2

In relation to our review of the financial report of Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2 for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Darren Handley-Greaves
Partner
3 February 2014

Income statement

For the half-year ended 31 December 2013

	Note	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Rental income		37,248	38,176	-	-
Other property income		5,926	5,456	-	-
Income from operating business activities		3,943	3,627	3,943	3,627
Interest income		38	81	4	6
Revenue		**47,155**	**47,340**	**3,947**	**3,633**
Property related expenses		(10,194)	(9,929)	-	-
Expenses from operating business activities		(4,579)	(4,400)	(4,469)	(4,498)
Property expenses		**(14,773)**	**(14,329)**	**(4,469)**	**(4,498)**
Finance costs		(6,630)	(7,255)	(124)	144
Responsible Entity's and Manager's fees		(2,250)	(2,216)	(5)	(4)
Operating expenses		(623)	(604)	(1)	(1)
Trust expenses		**(9,503)**	**(10,075)**	**(130)**	**139**
Fair value movement of derivatives held at the end of the period		1,110	(697)	-	-
Fair value movement of investment properties sold during the period		-	(1,770)	-	-
Fair value movement of investment properties held at the end of the period	6, 7	(8,974)	29	-	-
Fair value movements		**(7,864)**	**(2,438)**	**-**	**-**
Foreign exchange gain/(loss)		9	40	-	-
Net profit/(loss) before tax		**15,024**	**20,538**	**(652)**	**(726)**
Income tax (expense)/credit		148	259	159	261
Net profit/(loss) after tax		**15,172**	**20,797**	**(493)**	**(465)**
Net profit/(loss) attributable to:					
Unitholders of CDPT1		15,665	21,262	-	-
Unitholders of CDPT2		-	-	(493)	(465)
Non-controlling interest - unitholders of CDPT2		(493)	(465)	-	-
Net profit/(loss) attributable to stapled unitholders		**15,172**	**20,797**	**(493)**	**(465)**
Basic and diluted earnings per ordinary unit (cents)	4	7.3	9.9	(0.2)	(0.2)
Earnings per unit based on net profit/(loss) attributable to stapled unitholders (cents)		7.1	9.7	N/a	N/a

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

Statement of comprehensive income
For the half-year ended 31 December 2013

	Note	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Net profit/(loss) after income tax		**15,172**	**20,797**	**(493)**	**(465)**
Other comprehensive income					
Movements in foreign currency translation reserve - recyclable amounts:					
Net gain/(loss) on hedge of net investment in foreign operation		(4,626)	760	-	-
Net gain/(loss) on foreign currency translation of net investment in foreign operation		4,678	(760)	-	-
Other comprehensive income for the period		**52**	**-**	**-**	**-**
Total comprehensive income for the period		**15,224**	**20,797**	**(493)**	**(465)**
Total comprehensive income attributable to:					
Unitholders of CDPT1		15,717	21,262	-	-
Unitholders of CDPT2		-	-	(493)	(465)
Non-controlling interest - unitholders of CDPT2		(493)	(465)	-	-
Total comprehensive income for the period		**15,224**	**20,797**	**(493)**	**(465)**

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

Balance sheet
As at 31 December 2013

	Note	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Current assets					
Cash and cash equivalents		3,842	6,553	420	570
Trade and other receivables		1,668	1,308	57	40
Derivative financial instruments		179	203	-	-
Other financial assets		-	97	-	-
Other assets		1,638	906	120	19
Total current assets		**7,327**	**9,067**	**597**	**629**
Non-current assets					
Other financial assets		108	-	-	-
Property, plant and equipment	5	11,880	12,148	-	-
Investment properties under development	6	6,800	6,800	-	-
Investment properties	7	860,219	858,900	-	-
Deferred tax assets		1,412	1,252	1,412	1,252
Total non-current assets		**880,419**	**879,100**	**1,412**	**1,252**
Total assets		**887,746**	**888,167**	**2,009**	**1,881**
Current liabilities					
Trade and other payables		18,274	16,433	915	918
Provision for distribution	3	19,697	19,697	-	-
Income tax payable		107	191	-	-
Derivative financial instruments	12	3,419	3,522	-	-
Total current liabilities		**41,497**	**39,843**	**915**	**918**
Non-current liabilities					
Trade and other payables	8	2,142	1,508	5,467	4,844
Derivative financial instruments	12	4,591	5,623	-	-
Interest bearing liabilities	9	257,083	254,287	-	-
Total non-current liabilities		**263,816**	**261,418**	**5,467**	**4,844**
Total liabilities		**305,313**	**301,261**	**6,382**	**5,762**
Net assets		**582,433**	**586,906**	**(4,373)**	**(3,881)**
Unitholders' equity					
Contributed equity	10	646,842	646,842	69	69
Undistributed income		16,905	15,918	(835)	(816)
Reserves		(81,314)	(75,854)	(3,608)	(3,134)
Total equity attributable to stapled unitholders		**582,433**	**586,906**	**(4,374)**	**(3,881)**
Equity attributable to:					
Unitholders of CDPT1		586,807	590,787	-	-
Unitholders of CDPT2		-	-	(4,374)	(3,881)
Non-controlling interest - unitholders of CDPT2		(4,374)	(3,881)	-	-
Total equity attributable to stapled unitholders		**582,433**	**586,906**	**(4,374)**	**(3,881)**
Net tangible assets attributable to unitholders ($)		2.71	2.74	(0.03)	(0.02)

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

Cash flow statement

For the half-year ended 31 December 2013

	Note	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Cash flows from operating activities					
Rental and other property income received		47,893	46,848	-	-
Operating business income		4,318	3,997	4,610	4,311
Interest received		38	81	4	6
Finance costs		(6,801)	(7,228)	-	-
Payments to suppliers		(22,648)	(19,671)	(4,629)	(3,750)
Net cash inflow/(outflow) from operating activities		**22,800**	**24,027**	**(15)**	**567**
Cash flows from investing activities					
Development and capital expenditure		(3,780)	(13,245)	-	(7)
Net proceeds from sale of properties		-	8,182	-	-
(Proceeds from)/refund of security deposit		(11)	-	-	111
Net cash inflow/(outflow) from investing activities		**(3,791)**	**(5,063)**	**-**	**104**
Cash flows from financing activities					
Buy-back of stapled securities		-	(1,238)	-	-
Transaction costs on buy-back of stapled securities		-	(16)	-	-
Distributions paid		(19,697)	(18,461)	-	-
Proceeds from borrowings		16,500	24,000	-	-
Repayment of borrowings		(18,560)	(22,300)	(135)	-
Net cash inflow/(outflow) from financing activities		**(21,757)**	**(18,015)**	**(135)**	**-**
Net increase/(decrease) in cash and cash equivalents		(2,748)	949	(150)	671
Cash and cash equivalents at the beginning of the period		6,553	2,923	570	316
Translation differences arising on cash balances held in foreign currencies		37	59	-	-
Cash and cash equivalents at the end of the period		**3,842**	**3,931**	**420**	**987**

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

Statement of changes in equity

For the half-year ended 31 December 2013

	Attributable to stapled unitholders of CDI				
	Contributed equity	Undistributed income	Gains/losses reserve	Foreign currency translation reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2013	646,842	15,918	(83,206)	7,352	586,906
Changes in equity					
Total comprehensive income attributable to:					
unitholders of CDPT1	-	15,665	-	52	15,717
non-controlling interest - unitholders of CDPT2[1]	-	(493)	-	-	(493)
Total comprehensive income	-	15,172	-	52	15,224
Distributions to stapled unitholders	-	(19,697)	-	-	(19,697)
Transfers to/(from) reserves	-	5,512	(5,512)	-	-
Units issued	-	-	-	-	-
Unit issue/cancellation costs	-	-	-	-	-
Balance as at 31 December 2013	**646,842**	**16,905**	**(88,718)**	**7,404**	**582,433**

	Attributable to stapled unitholders of CDI				
	Contributed equity	Undistributed income	Gains/losses reserve	Foreign currency translation reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2012	648,107	14,620	(83,122)	7,059	586,664
Changes in equity					
Total comprehensive income attributable to:					
unitholders of CDPT1	-	21,262	-	-	21,262
non-controlling interest - unitholders of CDPT2[1]	-	(465)	-	-	(465)
Total comprehensive income	-	20,797	-	-	20,797
Distributions to stapled unitholders	-	(18,413)	-	-	(18,413)
Transfers to/(from) reserves	-	(216)	216	-	-
Units issued	-	-	-	-	-
Units cancelled pursuant to share buy-back	(1,238)	-	-	-	(1,238)
Unit issue/cancellation costs	(16)	-	-	-	(16)
Balance as at 31 December 2012	**646,853**	**16,788**	**(82,906)**	**7,059**	**587,794**

[1] CDPT2 is the only non-controlling interest.

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

Statement of changes in equity

For the half-year ended 31 December 2013

	Attributable to unitholders of CDI2			
	Contributed equity	Undistributed income	Gains/losses reserve	Total
	$'000	$'000	$'000	$'000
Balance as at 1 July 2013	69	(816)	(3,134)	(3,881)
Changes in equity				
Total comprehensive income attributable to unitholders of CDPT2	-	(493)	-	(493)
Transfers from reserves	-	474	(474)	-
Balance as at 31 December 2013	**69**	**(835)**	**(3,608)**	**(4,374)**

	Attributable to unitholders of CDI2			
	Contributed equity	Undistributed income	Gains/losses reserve	Total
	$'000	$'000	$'000	$'000
Balance as at 1 July 2012	69	(593)	(2,272)	(2,796)
Changes in equity				
Total comprehensive income attributable to unitholders of CDPT2	-	(465)	-	(465)
Transfers from reserves	-	449	(449)	-
Balance as at 31 December 2012	**69**	**(609)**	**(2,721)**	**(3,261)**

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

Notes to the financial statements

For the half-year ended 31 December 2013

1. Trust information

The financial report for the half-year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors of the Responsible Entity dated 3 February 2014.

Challenger Diversified Property Group (herein known by its ASX code 'CDI') consists of two stapled Australian registered managed investment schemes, CDPT1 and CDPT2, and is publicly traded on the Australian Securities Exchange (ASX).

The principal activity of CDPT1 during the period was investment in an office, retail and industrial property portfolio, with CDPT2 operating a car park business.

2. Summary of significant accounting policies

The accounting policies which have been adopted in the preparation of the half-year financial statements are stated to assist in a general understanding of this report.

(a) Basis of preparation

The half-year financial report has been prepared in accordance with the AASB 134 *Interim Financial Reporting*, requirements of the Constitutions and the Corporations Act 2001.

The CDI financial report has been prepared based on a business combination by the parent entity, and in recognition of the fact that the units issued by CDPT1 and CDPT2 have been stapled and cannot be traded separately.

For the purposes of statutory reporting the parent entity is CDPT1. The consolidated balance sheet and consolidated income statement comprise the financial position and performance of CDPT1 and its controlled entities and CDPT2 and its controlled entities, collectively known as CDI.

The CDI2 financial report includes the results of CDPT2 and its controlled entities. For the purposes of statutory reporting CDI2's parent entity is CDPT2.

The CDI2 financial report has been prepared on a going concern basis as CDPT2 is expected to generate sufficient funds to enable it to pay its debts as and when they fall due. In addition to this, CDPT1 has agreed to make available to CDPT2 sufficient funds to enable CDPT2 to pay its debts as and when they fall due to the extent that money is not otherwise available to CDPT2 to meet such liabilities.

The half-year financial report has been prepared on a historical cost basis, except for investment property, investment property under development and derivative financial instruments that have been measured at fair value.

The half-year financial report has been prepared in accordance with ASIC Class Order 05/642 which allows issuers of stapled securities to include their financial statements and the consolidated or combined financial statements of the stapled group in adjacent columns in one financial report.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and considered together with any public announcements made by CDI during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX listing rules.

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

2. Summary of significant accounting policies (continued)

Except for the matters referred to in Note 2(b) below, the accounting policies and methods of computation are the same as those adopted in the annual report for the year ended 30 June 2013.

(b) Application of new and revised accounting standards

Changes in accounting policy or disclosure

AASB 10 Consolidated Financial Statements and AASB 12 Disclosure of Interests in Other Entities effective for annual reporting periods beginning on or after 1 January 2013. AASB 10 provides further clarity on the concept of control and AASB 12 enhances disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Application of AASB10 will not result in changes to those entities deemed to be controlled by CDI and AASB 12 will result in increased disclosure in the 30 June 2014 annual financial report.

AASB 13 Fair Value Measurement This standard establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Additional disclosure for financial assets and liabilities is required for the first time in half-year accounts.

Consequential amendments were also made to other standards via AASB 2011-8 which has resulted in additional disclosures around the fair values of financial instruments.

The adoption of other amendments and changes which were effective during the period did not result in any material changes to the financial report.

There were no changes in accounting policy applied during the period.

Accounting standards and interpretations issued but not yet effective

There are a number of amendments to Australian Accounting Standards, in addition to those described in the most recent annual financial report, that are available for early adoption but that have not been applied in this half-year financial report. The amendments would have resulted in only minor disclosure impacts if they had been early adopted.

(c) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. Other than the estimation of fair values and the process for determining the fair value of investment properties, investment properties under development, derivative financial instruments and the discounted value of related party loans, there are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next semi-annual reporting period.

(d) Exchange rates used for foreign investments

The following exchange rates are used in translating foreign currency transactions, balances and financial statements:

	31 December 2013 EUR	30 June 2013 EUR	31 December 2012 EUR
Weighted average exchange rate	0.6861	0.7946	0.8059
Spot rate at balance date	0.6493	0.7042	0.7875

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

3. Distributions paid and proposed

The following distributions were paid or payable in respect to the period ended 31 December 2013:

	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000	CDI2 31 December 2013 $'000	CDI2 31 December 2012 $'000
Distributions proposed and recognised as a liability				
Interim stapled distribution proposed for the period ended 31 December 2013 payable on 28 February 2014: 9.20 cpu (2012: 8.60 cpu paid on 28 February 2013)	19,697	18,413	-	-
Total interim stapled distribution	**19,697**	**18,413**	**-**	**-**

CDPT2 has not declared or paid a distribution to unitholders during the period (2012: Nil).

4. Earnings per unit

Basic earnings per stapled security is calculated using the profit attributable to the ordinary unitholders of the parent entity and the time weighted average number of ordinary units outstanding during the period.

The following reflects the income and unit data used in the calculations of basic and diluted earnings per unit computations:

	CDI 31 December 2013	CDI 31 December 2012	CDI2 31 December 2013	CDI2 31 December 2012
Basic and diluted earnings per ordinary unit (cents)	7.3	9.9	(0.2)	(0.2)
Net profit/(loss) attributable to unitholders of the parent entity ($'000)	15,665	21,262	(493)	(465)
Weighted average number of securities (basic and diluted) ('000)	214,101	214,115	214,101	214,115

5. Property, plant and equipment

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Installed and in use - at depreciated cost	11,880	12,148	-	-
Property, plant and equipment	**11,880**	**12,148**	**-**	**-**
Reconciliation of carrying amount				
Carrying amount at beginning of period	12,148	12,186	-	-
Additions	15	224	-	-
Depreciation	(283)	(262)	-	-
Carrying amount at end of period	**11,880**	**12,148**	**-**	**-**

6. Investment properties under development

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Investment property under development	6,800	6,800	-	-
Reconciliation of carrying amount				
Carrying amount at beginning of period	6,800	6,800	-	-
Development expenditure	33	358	-	-
Interest capitalised to investment properties under development	631	1,221	-	-
Net loss from fair value adjustments	(664)	(1,579)	-	-
Carrying amount at end of period	**6,800**	**6,800**	**-**	**-**

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

7. Investment properties

(a) Reconciliation of carrying amount

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Investment properties at fair value	860,219	858,900	-	-
Reconciliation of carrying amount				
Carrying amount at beginning of period	858,900	851,964	-	-
Redevelopment and restructuring expenditure	1,420	6,105	-	-
Interest capitalised to investment property being redeveloped	-	218	-	-
Life-cycle capital expenditure	1,809	4,191	-	-
Straight-lining of rent	(72)	2,105	-	-
Deferred leasing incentives and costs	1,829	1,311	-	-
Fair value movement of investment properties	(8,310)	(3,929)	-	-
Disposals	-	(9,942)	-	-
Foreign currency translation differences	4,643	6,877	-	-
Carrying amount at end of period	**860,219**	**858,900**	**-**	**-**

(b) Details of investment properties

	CDI ownership %	Valuation date	Director/ independent valuer	Market capitalisation rate 31 December 2013 %	Discount rate 31 December 2013 %	CDI Carrying value 31 December 2013 $'000	Market capitalisation rate 30 June 2013 %	Discount rate 30 June 2013 %	CDI Carrying value 30 June 2013 $'000
Australia									
Office									
ABS House, Belconnen, ACT	60	31-Dec-13	Director	8.75	9.25	81,960	8.50	9.25	84,000
31 Queen Street, Melbourne, VIC	100	31-Dec-13	Director	8.00	9.25	96,200	8.00	9.25	95,500
DIBP Building, Belconnen, ACT	60	31-Dec-13	Director	8.25	9.25	71,460	8.25	9.25	71,100
The Forum, Cisco, St Leonards, NSW	60	31-Dec-13	m3property	8.25	9.25	65,400	8.25	9.50	66,900
Discovery House, Woden, ACT	60	31-Dec-13	m3property	8.00	9.25	60,000	8.00	9.25	59,400
Makerston House, Brisbane, QLD	60	31-Dec-13	m3property	9.25	9.00	42,480	9.00	9.50	44,160
The Forum, Verizon, St Leonards, NSW	60	31-Dec-13	m3property	8.75	9.25	41,460	8.75	9.75	41,940
Elder House, Adelaide, SA	60	31-Dec-13	JLL	9.75	9.75	25,200	9.50	9.50	26,340
Executive Building, Hobart, TAS	60	31-Dec-13	JLL	8.50	9.75	19,800	8.50	9.75	19,800
Office total				**8.46**	**9.27**	**503,960**	**8.40**	**9.38**	**509,140**
Retail									
Jam Factory, South Yarra, VIC	60	31-Dec-13	Savills	7.25	9.00	75,300	7.50	9.00	76,800
Century City Walk, Glen Waverley, VIC	100	31-Dec-13	Savills	8.25	9.75	32,500	8.25	9.75	31,700
Innaloo Cinema Centre, Innaloo, WA	60	31-Dec-13	Director	8.00	9.00	26,400	8.00	9.00	26,100
Kings Langley, Kings Langley, NSW	60	31-Dec-13	JLL	8.00	9.00	10,800	8.50	9.00	10,080
Retail total				**7.67**	**9.17**	**145,000**	**7.82**	**9.16**	**144,680**
Industrial – Distribution Centres									
The Junction, Stage 2, Enfield, NSW	100	31-Dec-13	Director	7.75	10.00	35,500	7.75	9.75	34,750
The Junction, Stage 1, Enfield, NSW	100	31-Dec-13	Knight Frank	8.50	10.00	20,000	8.50	9.50	20,600
6 Foray Street, Fairfield, NSW	100	31-Dec-13	Director	10.50	11.50	13,100	10.50	10.50	14,900
Spotlight, Laverton North, VIC	100	31-Dec-13	Colliers	8.25	10.00	17,750	8.25	10.25	17,000
12-30 Toll Drive, Altona North, VIC	100	31-Dec-13	Director	8.75	10.25	14,000	8.75	10.50	14,000
2-10 Toll Drive, Altona North, VIC	100	31-Dec-13	Colliers	8.50	10.00	5,900	8.50	10.00	5,800
1-9 Toll Drive, Altona North, VIC	100	31-Dec-13	Director	8.50	10.25	3,900	8.50	10.50	3,900
Industrial total				**8.49**	**10.22**	**110,150**	**8.53**	**10.01**	**110,950**
Hi-Tech Office									
Taylors House, Waterloo, NSW	60	31-Dec-13	Colliers	9.25	9.50	25,500	9.25	9.75	25,200
187 Todd Road, Port Melbourne, VIC	60	31-Dec-13	m3property	9.00	9.50	14,940	9.00	9.75	13,080
Hi-Tech Office total				**9.16**	**9.50**	**40,440**	**9.16**	**9.75**	**38,280**
Total investment properties - Australia				**8.36**	**9.40**	**799,550**	**8.35**	**9.45**	**803,050**
France									
Sully, Sully sur Loire	100	31-Dec-13	Knight Frank	9.75	N/A[1]	12,568	9.75	N/A[1]	11,602
Aulnay, Aulnay sous Bois, Paris	100	31-Dec-13	Knight Frank	6.95	N/A[1]	16,418	6.95	N/A[1]	15,109
Beziers, Villeneuve les Beziers	100	31-Dec-13	Knight Frank	8.50	N/A[1]	12,707	8.47	N/A[1]	11,701
Gennevilliers, Gennevilliers, Paris	100	31-Dec-13	Knight Frank	7.25	N/A[1]	11,398	7.25	N/A[1]	10,508
Tours, Parcay-Meslay, Tours	100	31-Dec-13	Knight Frank	8.65	N/A[1]	7,578	8.65	N/A[1]	6,930
Total investment properties - France				**8.12**		**60,669**	**8.12**		**55,850**
Total investment properties				**8.34**		**860,219**	**8.33**		**858,900**

[1] In France the primary valuation method used is the term and reversion method, as such a discount rate which is applied under the discount cash flow method is not relevant.

The carrying values of properties in Australia have been determined with reference to independent and Directors' valuations using the market capitalisation, discounted cash flow methods and direct comparison methods. The significant valuation assumptions were sourced from the latest independent valuations in the respective half-year.

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

8. Trade and other payables

Non-current trade and other payables mainly represents a finance facility issued by CDPT1 to CDPT2. From 23 December 2012 this facility became non-interest bearing. As at 31 December 2013 the nominal value of the loan is $3.9 million (30 June 2013: $3.9 million) and the fair value is $3.3 million (30 June 2013: $3.3 million).

The remainder ($2.1 million) of trade and other payables relates to the straight lining of the Domain lease which commenced on 1 May 2012 and expires on 30 April 2032. Prior period comparatives have been restated to non-current in line with lease maturity.

9. Interest bearing liabilities

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Non-current				
Bank loans – secured	59,305	54,679	-	-
Bank loans – unsecured	197,778	199,608	-	-
Total interest bearing liabilities	**257,083**	**254,287**	**-**	**-**

[1] The amounts shown in the above table include drawn debt less unamortised debt establishment costs of $1.2 million (30 June 2013: $1.4 million).

Financing facilities available

CDI has a $300.0 million multi-option syndicated finance facility with Westpac Banking Corporation Limited (WBC) and Commonwealth Bank of Australia Limited (CBA). The facility comprises three tranches with limits of $90 million, $110 million and $100 million maturing in October 2015, July 2016 and July 2017 respectively, with a weighted average term of 2.7 years. For Australian denominated loans (31 December 2013: AUD 198.9 million, 30 June 2013: AUD 201.0 million), interest on the facility is calculated at the bank bill swap rate, plus a margin. For Euro denominated loans (31 December 2013: EUR 38.5 million or AUD 59.3 million, 30 June 2013: EUR 38.5 million or AUD 54.7 million), interest on the facility is calculated at EURIBOR, plus a margin. CDPT2 and Challenger Diversified Property Development Pty Limited (CDPD), entities forming part of the stapled CDI group, are guarantors of the facility.

The loan facility comprises a secured component and an unsecured component. In relation to the unsecured component, CDI has not granted security over its properties but provided a number of negative undertakings, including an undertaking not to create or allow encumbrance over its properties. The secured component relates to the funding of property acquisitions in France. Security was granted by way of mortgages of shares in, and of debts between, entities established to acquire the French properties.

At reporting date, the following financing facilities had been negotiated and were available:

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Total facilities:				
Interest bearing liabilities	300,000	300,000	-	-
Facilities used at reporting date:				
Interest bearing liabilities	258,245	255,679	-	-
Bank guarantees	1,060	1,060	-	-
Facilities unused at reporting date:				
Interest bearing liabilities	40,695	43,261	-	-

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

9. Interest bearing liabilities (continued)

Financing facilities maturity profile

The following tables set out the carrying value, by maturity, of CDI's outstanding financing facilities:

CDI Half year ended 31 December 2013	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	>4 years $'000	Total $'000	Weighted average effective interest rate %
Bank loans and bank guarantees	-	90,000	110,000	59,305	-	259,305	3.68
Facilities unused	-	-	-	40,695	-	40,695	
Total facilities	-	90,000	110,000	100,000	-	300,000	

CDI Year ended 30 June 2013	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	>4 years $'000	Total $'000	Weighted average effective interest rate %
Bank loans and bank guarantees	-	-	83,429	110,000	63,310	256,739	4.53
Facilities unused	-	-	6,571	-	36,690	43,261	
Total facilities	-	-	90,000	110,000	100,000	300,000	

10. Contributed equity

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Issued units opening balance	646,842	648,107	69	69
Ordinary units purchased and cancelled as part of CDI's on-market buy-back - CDPT1 $2.20 per unit, CDPT2 $0.00 per unit[1]	-	(1,238)	-	-
	646,842	**646,869**	**69**	**69**
Costs associated with the issue/buy-back of units	-	(27)	-	-
Contributed equity closing balance	**646,842**	**646,842**	**69**	**69**

[1] The unit price has been restated to take into account the 1 for 4 unit consolidation.

	CDI 31 December 2013 Number of securities '000	CDI 30 June 2013 Number of securities '000	CDI2 31 December 2013 Number of securities '000	CDI2 30 June 2013 Number of securities '000
Ordinary units on issue at the beginning of the period	214,101	858,653	214,101	858,653
Ordinary units cancelled under on-market buy-back	-	(2,250)	-	(2,250)
Ordinary units consolidated under 4 for 1 unit consolidation	-	(642,302)	-	(642,302)
Total securities on issue at the end of the year	**214,101**	**214,101**	**214,101**	**214,101**

All units in CDI are fully paid and ranked equally with each other in all respects.

Notes to the financial statements (continued)
For the half-year ended 31 December 2013

10. Contributed equity (continued)

Capital management

CDI and CDI2 manage capital to ensure that they will be able to continue as a going concern while maximising returns to unitholders through the optimisation of debt and equity balances. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to each entity.

The capital structure of CDI and CDI2 consists of debt which includes borrowings disclosed in Note 9, cash and cash equivalents, issued capital disclosed above and reserves and undistributed income. Management reviews the capital structure regularly and balances its overall capital structure through payment of distributions, new unit issues and unit buy-backs as well as the drawing of new debt or repayment of existing debt.

Swaps are utilised by CDI to minimise interest rate risk and Euro denominated debt is used to minimise currency risk exposure.

Management's policy is to effectively manage cash flow from operating activities by using surplus cash to repay debt.

CDI's debt facility documentation specifically includes the capability to drawdown funds for distribution and working capital requirements.

Capital risk is monitored against policies, guidelines and externally imposed covenants[1]:

	CDI policy	31 December 2013	30 June 2013
Gearing[1]	Targeted balance sheet gearing limit of 25% - 35%	29%	29%
Covenant gearing[2]	To be less than 50%	34%	34%
Covenant interest cover[2]	Greater than 2 times	4.25	3.81
Interest rate risk	To effectively hedge the interest on a minimum of 60% of expected debt	76%	72%
Foreign currency risk	Capital hedging - Maintain a natural capital hedge against a minimum of 100% of the total value of assets invested offshore	98%	100%

[1] Gearing is calculated by dividing total debt by total gross assets.

[2] During the current and prior year, the financial covenants under the borrowing facilities were complied with.

11. Segment information

CDI

Operating segments have been determined based on the reports reviewed by CDI's Manager (Challenger Management Services Limited (CMSL) represented by the CDI Fund Manager and Head of Real Estate) that are used to make strategic decisions.

The manager considers CDI's Australian assets by asset class being office, retail, industrial and car park operating business. Assets held in France are considered to be a separate segment.

The reportable operating segments derive their revenue from property investment except for the car park operating business which derives its revenue from letting of car parking space.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. However, the classification of some income and expense items on the income statement prepared for CDI's management is different to the statutory income statement. These items have been reconciled to the statutory income statement.

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

11. Segment information (continued)

31 December 2013	Office $'000	Retail $'000	Industrial $'000	Operating Business $'000	France $'000	Total $'000
Rental income	21,868	6,823	6,127	3,943	2,502	41,263
Other property income	2,759	1,614	1,131	-	422	5,926
Property related expenses	(5,269)	(2,891)	(1,551)	(3,660)	(484)	(13,855)
Net property/operating business income	19,358	5,546	5,707	283	2,440	33,334
Interest income[1]	-	-	-	-	-	38
Finance costs[1]	-	-	-	-	(356)	(6,630)
Responsible Entity's and Manager's fees[1]	-	-	-	-	-	(2,250)
Operating expenses[1]	-	-	-	-	(181)	(623)
Segment result (Normalised earnings)	**19,358**	**5,546**	**5,707**	**283**	**1,903**	**23,869**
Straight-lining of rental income/(expense)[2]	(96)	(188)	212	(634)	-	(706)
Property, plant and equipment depreciation[2]	-	-	-	(284)	-	(284)
Fair value movement of derivatives held at the end of the period[1]	-	-	-	-	-	1,110
Fair value movement of investment properties held at the end of the period[2]	(7,719)	2	(1,419)	-	162	(8,974)
Foreign exchange loss[1]	-	-	-	-	-	9
Income tax credit[1]	-	-	-	-	-	148
Net profit after income tax	**11,543**	**5,360**	**4,500**	**(635)**	**2,065**	**15,172**

31 December 2012	Office $'000	Retail $'000	Industrial $'000	Operating Business $'000	France $'000	Total $'000
Rental income	22,162	6,792	6,255	3,627	2,157	40,993
Other property income	2,698	1,380	1,016	-	362	5,456
Property related expenses	(5,073)	(2,719)	(1,748)	(3,613)	(389)	(13,542)
Net property/operating business income	19,787	5,453	5,523	14	2,130	32,907
Interest income[1]	-	-	-	-	-	81
Finance costs[1]	-	-	-	-	(650)	(7,255)
Responsible Entity's and Manager's fees[1]	-	-	-	-	-	(2,216)
Operating expenses[1]	-	-	-	-	(386)	(604)
Segment result (Normalised earnings)	**19,787**	**5,453**	**5,523**	**14**	**1,094**	**22,913**
Straight-lining of rental income/(expense)[2]	544	213	53	(710)	-	100
Property, plant and equipment depreciation[2]	-	-	-	(77)	-	(77)
Fair value movement of derivatives held at the end of the period[1]	-	-	-	-	-	(697)
Fair value movement of investment properties sold during the period[2]	-	-	(1,770)	-	-	(1,770)
Fair value movement of investment properties held at the end of the period[2]	1,008	2,037	(3,582)	-	566	29
Foreign exchange loss[1]	-	-	-	-	-	40
Income tax credit[1]	-	-	-	-	-	259
Net profit after income tax	**21,339**	**7,703**	**224**	**(773)**	**1,660**	**20,797**

[1] In the management reports prepared for CDI's management and Board, finance costs and operating expenses are reported separately for the French segment and are not allocated to other segments. Interest income and Responsible Entity's and Manager's fees, fair value movements of derivatives, foreign exchange loss and income tax credit are not allocated across the segments.

[2] In the management report prepared for CDI's management and Board, straight-lining of rental income/expense, property, plant and equipment depreciation, fair value movement of investment properties sold during the year and are not reported separately by segment but have been reported this way in the segment note to provide more detail to users of the financial report.

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

11. Segment information (continued)

Normalised earnings is calculated by taking "Net profit/(loss) after income tax" per the income statement (herein referred to as statutory net profit) and adjusting for the following items:

- straight-lining of rental income/expense;
- property, plant and equipment depreciation and impairment;
- discount on intra stapled group related party loan;
- fair value movements;
- net gains/losses on disposal of property, plant and equipment;
- foreign exchange gains/losses;
- income tax credit/expense;
- litigation proceeds;
- rental guarantees; and
- other one-off amounts outside the core operating business.

The exclusion of these items provides a profit figure, which in management's view, is more closely aligned with the recurring net cash earnings generated by CDI's properties and operating business.

Below is a reconciliation of rental income on the segment note to rental income as shown on the income statement:

	CDI 31 December 2013 $'000	CDI 31 December 2012 $'000
Rental income per income statement	37,248	38,176
Net straight-lining of rental income	72	(810)
Income from operating business activities	3,943	3,627
Rental income per segment note	**41,263**	**40,993**

CDI2

It has been determined that CDI2 has a single operating segment. CDI2 operates entirely within Australia, operating a car park business.

Total assets

	Office $'000	Retail $'000	Industrial $'000	Operating Business $'000	France $'000	Total $'000
31 December 2013						
Segment operating assets	508,321	146,667	157,876	12,923	61,168	886,955
Unallocated assets	-	-	-	-	-	791
Total assets from continuing operations per balance sheet						**887,746**
30 June 2013						
Segment operating assets	513,831	145,969	156,580	12,986	56,065	885,431
Unallocated assets	-	-	-	-	-	2,736
Total assets from continuing operations per balance sheet						**888,167**

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

11. Segment information (continued)

Non-current assets by geography

The geographic location of non-current assets other than financial assets and tax deferred assets is as follows:

	31 December 2013 $'000	30 June 2013 $'000
Australia	818,230	821,998
Europe	60,669	55,850
Total non-current assets	**878,899**	**877,848**

12. Financial instruments

Derivative financial instruments

The following table sets out outstanding derivative financial instruments, held at fair value, as at balance date:

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Current assets				
Interest rate swaps	-	-	-	-
Forward exchange contracts	179	203	-	-
	179	**203**	**-**	**-**
Non-current assets				
Interest rate swaps	-	-	-	-
Forward exchange contracts	-	-	-	-
	-	**-**	**-**	**-**
Current liabilities				
Interest rate swaps	(3,210)	(3,289)	-	-
Forward exchange contracts	(209)	(233)	-	-
	(3,419)	**(3,522)**	**-**	**-**
Non-current liabilities				
Interest rate swaps	(4,591)	(5,623)	-	-
Forward exchange contracts	-	-	-	-
	(4,591)	**(5,623)**	**-**	**-**
Total derivative financial instruments	**(7,831)**	**(8,942)**	**-**	**-**

Summary of gain/(loss) on revaluation of financial derivatives:

	CDI 31 December 2013 $'000	CDI 30 June 2013 $'000	CDI2 31 December 2013 $'000	CDI2 30 June 2013 $'000
Fair value movements				
Interest rate swaps	1,110	1,440	-	-
Forward exchange contracts	-	(26)	-	-
Fair value movements (per income statement)	**1,110**	**1,414**	**-**	**-**

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

- **Level 1** - valued by reference to quoted prices in active markets for identical assets or liabilities;
- **Level 2** - valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- **Level 3** - valued using valuation techniques or models that are based on unobservable inputs.

Notes to the financial statements (continued)

For the half-year ended 31 December 2013

12. Financial instruments (continued)

CDI's financial instruments held at fair value, comprising of interest rate swaps and forward foreign exchange contracts, use valuation techniques with only observable market inputs and are therefore classified as level 2 on the fair value hierarchy.

Valuation techniques

The fair value of the interest rate swaps are calculated as the present value of the estimated future cash flows based on the forward price curve of interest rates at balance date; and the fair value of forward foreign exchange contracts is determined based on observable spot exchange rates, the yield curves of respective currencies as well as the basis spreads between the respective currencies at balance date.

13. Contingent assets and liabilities

The tenant (Bricoman) of the French property at Aulnay sous Bois in Paris commenced an action against CDI alleging that certain structural roadwork defects with the site have affected its use of the premises. A hearing was held on 13 December 2010, and the court appointed an expert to review Bricoman's claim. Since the appointment of the expert, the parties and their respective consultants have undertaken a number of investigations to ascertain the cause of the alleged defects. Neither the Court or Court appointed expert have provided a specific timetable for providing the final report.

The property also has the benefit of a decennial guarantee (an automatic guarantee which provides that the builders and architects of the building are liable for 10 years from the date of construction) in respect of damage arising from defects. In addition, CDI has the benefit of an insurance policy issued by Covea Risks (work damage guarantee), which covers the payment of any damage for which the builder and architects are liable for under the decennial guarantee.

It is CDI's and its legal adviser's understanding that Covea Risks has not denied the existence of the insurance policy or their liability under such insurance policy.

Other than the above, as at balance date there are no material contingent liabilities or contingent assets.

14. Events subsequent to balance sheet date

There has been no matter or circumstance that has arisen since the end of the interim period that has significantly affected, or may affect, CDI's and CDI2's operations in future financial years, the results of those operations or state of affairs in future financial years.

Statement by the Directors of the Responsible Entity of CDI

On the financial report of the Challenger Diversified Property Group

In accordance with a resolution of the Directors of Challenger Listed Investments Limited (the Responsible Entity of Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2, collectively known as the Challenger Diversified Property Group (herein known by its ASX code 'CDI') I state that:

In the opinion of the Directors:

(a) The financial statements and notes of CDI and CDI2 are in accordance with the CDI Constitutions and the Corporations Act 2001, including:

  (i) giving a true and fair view of CDI and CDI2 as at 31 December 2013 and of their performance for the half-year ended on that date; and

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

(b) There are reasonable grounds to believe that CDI and CDI2 will be able to pay their debts as and when they become due and payable.

On behalf of the Board

Michael Cole
Chair

Sydney
3 February 2014

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Independent auditor's report to security holders of Challenger Diversified Property Group

Challenger Diversified Property Group (the "Combined Group") comprises Challenger Diversified Property Trust 1 and the entities it controlled at the half year's end or from time to time during the financial period ("CDI1") and Challenger Diversified Property Trust 2 and the entities it controlled at the half year's end or from time to time during the financial period ("CDI2").

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Challenger Diversified Property Group, which comprises the balance sheets as at 31 December 2013, the statements of comprehensive income, statements of changes in equity and cash flow statements for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Combined Group at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Challenger Listed Investments Limited, as Responsible Entity for Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2 (collectively referred to as "the Directors"), are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Combined Group and CDI2's financial positions as at 31 December 2013 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2 and the entities they controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which follows the Directors' Report.

Conclusion

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

a) giving a true and fair view of the Combined Group and the Challenger Diversified Property Trust 2's financial positions as at 31 December 2013 and of their performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Darren Handley-Greaves
Partner
Sydney
3 February 2014

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