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MARKET RELEASE

CHALLENGER DIVERSIFIED PROPERTY GROUP – TARGET'S STATEMENT ISSUED

08 May 2014, Sydney – Challenger Listed Investments Limited (CLIL), as responsible entity of Challenger Diversified Property Group (ASX:CDI) has released its Target's Statement in response to the off-market takeover offer to acquire all the units in CDI (Offer) received from Challenger Life Nominees Pty Ltd as trustee of Challenger Australia Listed Property Holding Trust (Bidder), a related entity of Challenger Life Company Limited.

The Offer is unconditional and the Bidder has declared the Offer final, which means the offer price of $2.74 per unit cannot be increased. The Bidder dispatched its Bidder's Statement, which contains details of the Offer, to unitholders on 29 April 2014.

The CLIL independent Directors appointed Deloitte Corporate Finance Pty Limited to prepare an Independent Expert's Report to determine if the Offer is fair and reasonable. The Independent Expert has concluded that the Offer is fair and reasonable in the absence of a superior proposal and a copy of their report is included in the Target's Statement.

The CLIL independent Directors have unanimously recommended that CDI unitholders accept the Offer, in the absence of a superior proposal.

The Offer is due to close at 7.00pm (Sydney time) on 28 May 2014, unless extended. A copy of the Target's Statement will be dispatched to unitholders on or around 12 May 2014 and unitholders are encouraged to read the Target's Statement in full.

END

Further enquiry: Jana Flanagan, Investor Relations Analyst, Challenger Diversified Property Group, 02 9994 7815
Nicole Webb, Corporate Communications Associate, Challenger Diversified Property Group, 02 9994 7806

challenger

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8 May 2014

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Challenger Diversified Property Group (ASX: CDI) – Target's Statement

In accordance with item 14 of section 633(1) of the *Corporations Act 2001* (Cth), please find **enclosed** a copy of the Target's Statement prepared by Challenger Listed Investments Limited as responsible entity of Challenger Diversified Property Group (**CDI**) in response to the off-market takeover bid for all the units in CDI by Challenger Life Nominees Pty Ltd as trustee of Challenger Australia Listed Property Holding Trust (the **Bidder**).

The Target's Statement was sent to the Bidder earlier today and has been lodged with the Australian Securities and Investments Commission.

The Target's Statement will be dispatched to CDI unitholders on or around 12 May 2014.

Yours faithfully,

Andrew Brown
Company Secretary

Challenger Diversified Property Group

Target's Statement

Challenger Diversified Property Group
comprising:

Challenger Diversified Property Trust 1
(ARSN 121 484 606)

Challenger Diversified Property Trust 2
(ARSN 121 484 713)

Responsible Entity
Challenger Listed Investments Limited
(ABN 94 055 293 644)
(AFSL 236887)

Challenger Diversified Property Group

This Target's Statement has been issued by Challenger Listed Investments Limited (CLIL) (ABN 94 055 293 644) as responsible entity of Challenger Diversified Property Trust 1 (ARSN 121 484 606) and Challenger Diversified Property Trust 2 (ARSN 121 484 713), together Challenger Diversified Property Group, in response to the offer by Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust, a related entity of Challenger Life Company Limited (ABN 44 072 486 938), to acquire all of the units in Challenger Diversified Property Group.

The Independent Directors of CLIL unanimously recommend that you

ACCEPT

the Offer, in the absence of a superior proposal.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

Financial Adviser UBS

Legal Adviser ashurst

challenger

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Important information

Nature of this document

This document is a Target's Statement issued by Challenger Listed Investments Limited (**CLIL**) (ABN 94 055 293 644) as responsible entity of Challenger Diversified Property Trust 1 (ARSN 121 484 606) and Challenger Diversified Property Trust 2 (ARSN 121 484 713), together Challenger Diversified Property Group (**CDI**), under Part 6.5 of the Corporations Act in response to the offer by Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust (the **Bidder**), a related entity of Challenger Life Company Limited (ABN 44 072 486 938) (**Challenger Life**), to acquire all of the units in CDI, made pursuant to the Bidder's Statement dated 11 April 2014 issued by the Bidder.

ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC on 8 May 2014 and provided to ASX on 8 May 2014. Neither ASIC nor ASX, nor any of their respective officers, take any responsibility for the contents of this Target's Statement.

Date of this Target's Statement

This Target's Statement is dated 8 May 2014.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are defined in section 11.1 of the Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

Section 11.2 sets out some rules of interpretation that apply to this Target's Statement.

No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of any person. It does not contain personal financial advice. CLIL is not licensed or authorised to provide tax advice, and comments in this Target's Statement should not be construed as tax advice. You should seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements

Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. Statements other than statements of historical facts may be forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of CDI, CLIL, its officers and employees, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on any forward looking statement.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Disclaimer as to information

The information on the Bidder contained in this Target's Statement has been prepared by CLIL from publicly available information and information provided by the Bidder. Information in this Target's Statement about the Bidder has not been independently verified by CLIL. Accordingly, CLIL does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Independent Expert's Report

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report. Neither CLIL nor any of its officers or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of CLIL, in relation to the information which it has provided to the Independent Expert.

Risk factors

Unitholders should note that there are a number of risk factors attached to their investment in CDI. Section 9 of this Target's Statement sets out further information on those risks.

Maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

Foreign jurisdiction

The release, publication or distribution of this Target's Statement in jurisdictions outside Australia may be restricted by law and any person who comes into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Privacy

CLIL has collected your information from the register of Unitholders for the purposes of providing you with this Target's Statement. The type of information CLIL has collected about you includes your name, contact details and information on your holdings in CDI. Without this information, CLIL would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the names and addresses of Unitholders to be held in a public register.

CDI unitholder information line

If you have any questions in relation to the Offer, please contact the CDI unitholder information line on 1800 649 099 (within Australia) or +61 1800 649 099 (from outside Australia). Further information relating to the Offer can be obtained from CDI's website at **http://www.challenger.com.au/cdi**.

Challenger Diversified Property Group

This Target's Statement has been issued by Challenger Listed Investments Limited (**CLIL**) (ABN 94 055 293 644) as responsible entity of Challenger Diversified Property Trust 1 (ARSN 121 484 606) and Challenger Diversified Property Trust 2 (ARSN 121 484 713), together Challenger Diversified Property Group, in response to the offer by Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust, a related entity of Challenger Life Company Limited (ABN 44 072 486 938), to acquire all of the units in Challenger Diversified Property Group.

The Independent Directors of CLIL unanimously recommend that you

ACCEPT

the Offer, in the absence of a superior proposal.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

Key dates

Date of the Offer	28 April 2014
Date of this Target's Statement	8 May 2014
Close of Offer Period **(unless extended or withdrawn)**	7.00pm (Sydney time), 28 May 2014

Chairman's letter

8 May 2014

Dear Unitholder

ACCEPT the Offer for your Units, in the absence of a superior proposal

On 11 April 2014, Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust (the **Bidder**), a related entity of Challenger Life Company Limited (ABN 44 072 486 938) (**Challenger Life**), announced an off-market takeover offer to acquire all of the issued units in CDI (**Offer**) for a cash consideration of $2.74 per Unit (**Offer Price**). At that date Challenger Group (which includes the Bidder and Challenger Life) owned or controlled approximately 58.7% of all Units. Since then, the Bidder has acquired additional Units at $2.74 per Unit and, as at 6 May 2014, Challenger Group owned or controlled approximately 81.25% of all Units.

The Offer is unconditional and the Bidder has declared the Offer 'best and final', which means the Offer Price cannot be increased.

Upon receipt of an initial indicative, incomplete and non-binding proposal from Challenger Life (the **Initial Proposal**), the CLIL Board established an Independent Board Committee (**IBC**). The IBC, which comprises Mr Michael Cole, Mr Geoffrey McWilliam and Mr Ian Moore, has reviewed the alternative strategic options to the Offer available to CDI and has carefully considered the potential value outcome for Unitholders and the risks involved in pursuing each of the following options (either stand-alone or in combination):

- maintaining the status quo;
- disposing of the entire property portfolio and winding up CDI;
- conducting a further buy-back of Units; and
- seeking alternative proposals to acquire CDI.

Please refer to section 1.1(f) of this Target's Statement for more detail on the alternative strategic options to the Offer considered by the IBC.

As part of the process of evaluation, the IBC together with its advisers negotiated improved terms from the Initial Proposal culminating in the unconditional 'best and final' Offer from the Bidder.

Having carefully considered the Offer, and alternative strategic options, **the Independent Directors unanimously recommend Unitholders ACCEPT the Offer in the absence of a superior proposal.**

Instructions on how to accept the Offer are contained in section 7.3 of the Bidder's Statement which was recently sent to you by the Bidder. Alternatively, you may wish to sell your Units on the ASX. If you do, the cash consideration may be paid earlier than it would be if you accept the Offer; however, you may incur brokerage costs.

The Independent Directors appointed Deloitte Corporate Finance to provide an Independent Expert's Report on the Offer. Deloitte Corporate Finance's Independent Expert's Report is contained in Appendix 1 to this Target's Statement. You are encouraged to read that report in full. In it, Deloitte Corporate Finance:

- concludes that the Offer is fair and reasonable, in the absence of a superior proposal; and
- estimates CDI's fair market value to be in the range of $2.69-$2.73 per Unit.

Your Independent Directors believe you should **ACCEPT** the Offer because:

- the Offer represents a premium to the trading price prior to the announcement of the Offer and the net tangible assets (**NTA**) of Units as at 31 December 2013;
- the Offer reflects a:
  - 4.6% premium to the closing price of $2.62 per Unit on 10 April 2014, the last trading day prior to the announcement of the Offer;
  - 6.4% premium to the one month volume weighted average price (**VWAP**) up to and including 10 April 2014 of $2.58; and
  - 1.1% premium to the last reported NTA of $2.71 as at 31 December 2013. An internal valuation process has been undertaken which suggests that that there would be no material change to NTA if the assets were independently revalued as at the date of this Target's Statement.
- the Independent Expert has determined that the Offer is fair and reasonable in the absence of a superior proposal;
- the Offer is unconditional and final;
- the Offer provides superior value and/or lower risk compared to other identified strategic options for CDI; and
- if the Bidder does not become entitled to proceed to compulsory acquisition and if no superior proposal emerges, the price of Units may trade below the price of $2.74 per Unit offered by the Bidder and Unitholders will be exposed to the risks associated with being a minority unitholder in CDI with reduced trading liquidity in Units. As indicated above, the Challenger Group as at 6 May 2014 already owned or controlled 81.25% of all Units.

Although the Offer is unconditional, the IBC has provided Challenger Life with assurances in relation to the conduct of CDI's business during the Offer Period. See section 5.4 of this Target's Statement for further details of these assurances.

I strongly encourage you to read all the information contained in this Target's Statement carefully. You may wish to seek independent advice if you are in doubt as to what action you should take in response to the Offer.

The Offer is due to close at 7.00pm (Sydney time) on 28 May 2014, unless extended.

We will continue to keep you fully informed of any further developments relating to the Offer. If you have any questions about the Offer, please contact the CDI unitholder information line on 1800 649 099 (within Australia) or +61 1800 649 099 (from outside Australia).

Yours sincerely

Michael Cole

Michael Cole
Independent Chairman
Challenger Listed Investments Limited

1. Evaluation of the Offer

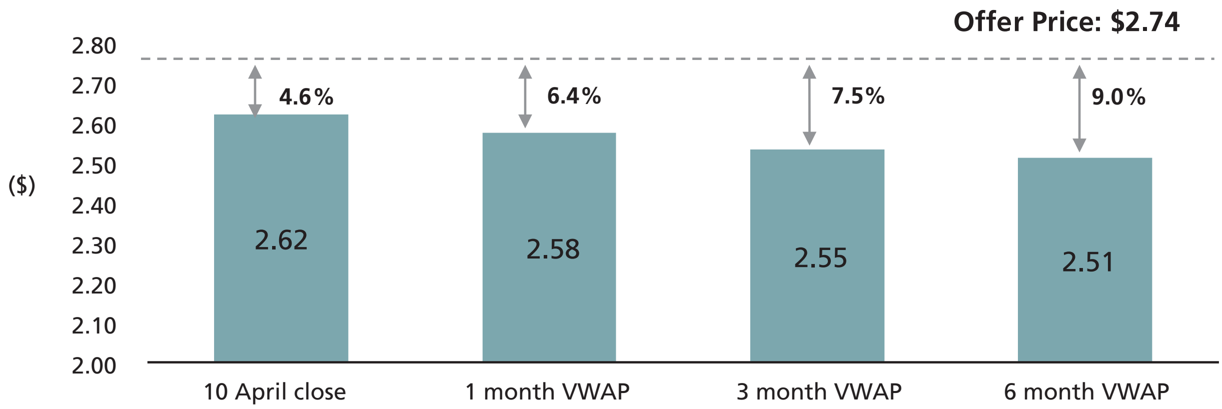
The Independent Directors recommend that you **ACCEPT** the Offer, in the absence of a superior proposal. The reasons for this recommendation are:

1	The Offer represents a premium to the trading price prior to the announcement of the Offer and the NTA of Units as at 31 December 2013.
2	The Independent Expert has concluded that the Offer is fair and reasonable in the absence of a superior proposal.
3	The Offer has the unanimous support of the Independent Directors.
4	The Offer provides certainty of value through 100% cash consideration.
5	The Offer is unconditional and final.
6	The Offer provides superior value and/or lower risk compared to other identified strategic options for CDI.
7	If the Bidder does not become entitled to proceed to compulsory acquisition and if no superior proposal emerges, the price of Units may trade below the price of $2.74 per Unit offered by the Bidder.
8	There are risks in not accepting the Offer.

1.1 Why you should ACCEPT the Offer

(a) **The Offer represents a premium to the trading price prior to the announcement of the Offer and the NTA of Units as at 31 December 2013.**

The Offer Price of $2.74 cash per Unit represents a premium to the VWAP of Units across various periods to 10 April 2014, which was the last trading day prior to the announcement of the Offer.



Compared to CDI's NTA backing per Unit of $2.71 as at 31 December 2013, the Offer Price of $2.74 represents a 1.1% premium. This premium was considered in light of CDI historically having traded at a discount to both its own NTA and also the Australian REIT (**A-REIT**) market's discount to NTA, as illustrated in the table below.

Premium/(discount) to NTA	10 April close	1 year average	3 year average	Average since listing
CDI	(3.3%)	(6.5%)	(14.1%)	(21.0%)
A-REIT market (excluding WDC and GMG)[1]	0.2%	1.3%	(7.9%)	(3.8%)

In accordance with the standard process that is undertaken prior to each valuation cycle, and prior to the Independent Directors recommending the Offer, CDI's management undertook an internal preliminary assessment of property valuations. This process involves discussions with independent valuers and detailed modelling. Based on this analysis, certain properties are likely to experience increases in value. Offsetting these are likely decreases in value for those properties with near term major lease expiries. In general, management expects a compression in market capitalisation rates to be offset by lower market rents, higher incentives and longer letting up periods. As such, CDI's management formed the view that there would be no material change to the valuation of the total property portfolio if the assets were independently revalued as at the date of this Target's Statement. The Independent Expert's assessment of the valuation of the property portfolio is an increase of approximately 0.2% since 31 December 2013.

(b) **The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal**

The Independent Directors appointed Deloitte Corporate Finance Pty Limited to prepare an Independent Expert's Report.

The Independent Expert has concluded that the Offer of $2.74 per Unit is fair and reasonable for Unitholders, in the absence of a superior proposal.

The Offer is fair

The Independent Expert has estimated CDI's fair market value to be in the range of $2.69-$2.73 per Unit.

On the basis that the Offer Price is higher than the Independent Expert's estimated fair market value per Unit, the Independent Expert has concluded that the Offer is fair in the absence of a superior proposal.

The Offer is reasonable

The Independent Expert has concluded that the Offer is reasonable on the basis that it is fair, and also taking into consideration the following factors:

- the Offer is unconditional, has no minimum acceptance threshold and has been declared final by the Bidder;

1 Westfield Group (ASX: WDC) and Goodman Group (ASX: GMG) have been excluded from this analysis as they are not comparable to CDI. Both WDC and GMG are internalised vehicles and have large management and development businesses with income streams that are not reflected on their respective balance sheets. These income streams contribute to both entities trading at significant premiums to their stated net tangible assets.

- a higher offer from a third party is unlikely due to the size of the interest in CDI currently held by the Bidder; and
- none of the alternative options available to CDI represent a compelling alternative to the Offer in the absence of a superior proposal.

The above summary of the opinion and key conclusions of the Independent Expert should be read in conjunction with the Independent Expert's Report, which is contained in Appendix 1 to this Target's Statement. Unitholders are encouraged to read the Independent Expert's Report in its entirety.

(c) **The Offer has the unanimous support of the Independent Directors**

Having carefully considered the terms of the Offer against available strategic alternatives, the Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal.

(d) **The Offer provides certainty of value through 100% cash consideration**

The Offer Price of $2.74 cash per Unit provides Unitholders with certainty of timing and value. In addition, Unitholders will not be required to pay brokerage if they accept the Offer in respect of their Units.

If you accept the Offer, you will cease to be exposed to the risks associated with an investment in CDI, including potential unit price volatility due to general share market conditions and business performance. See section 9.1 of this Target's Statement for an outline of the risks of an investment in CDI.

In contrast, if the Bidder does not become entitled to proceed to compulsory acquisition, and Unitholders do not accept the Offer, the amount which Unitholders will be able to realise for their Units will be uncertain and subject to, amongst other things, the performance of CDI's business from time to time and the vagaries of property prices and share market conditions.

(e) **The Offer is unconditional and final**

The Offer is not subject to any conditions. The Offer is also final which means that the Bidder cannot increase the Offer Price of $2.74 cash per Unit.

(f) **The Offer provides superior value and/or lower risk compared to other identified strategic options for CDI**

The Independent Directors have reviewed the alternative strategic options available to CDI. In assessing those options, the Independent Directors have considered the potential value outcome for Unitholders and the risks involved in pursuing each option. The Independent Directors have considered the following options (either as a stand-alone or in combination):

- maintaining the status quo;
- disposing of the entire property portfolio and winding up CDI;
- conducting a further buy-back of Units; and
- seeking alternative proposals to acquire CDI.

The alternatives identified are either not viable, contain higher risk or, if executed, are not expected to provide a more compelling proposition than the Offer.

Maintaining the status quo is already reflected in the Unit price prior to the announcement of the Offer

In the absence of the Offer, CDI would continue its current strategy which is focused on:

- portfolio enhancement – divesting the remaining Australian hi-tech office asset and the French portfolio of assets and continuing to add value to the existing portfolio;

- improving the lease expiry profile; and
- taking an active approach to capital management.

The Unit price prior to the announcement of the Offer and the associated discount to NTA has meant CDI has not been prepared to raise equity to expand and diversify the investment portfolio as this would dilute NTA. When combined with management's objective to maintain balance sheet gearing within the target gearing range (25%-35%), the portfolio enhancement strategy has been limited to a recycling of capital approach.

The Unit price prior to announcement of the Offer arguably reflects CDI's lack of liquidity.

Disposal of the property portfolio carries execution risk and is likely to result in a lower value than the Offer Price of $2.74 cash per Unit

Disposal of the property portfolio would incur transaction costs including direct selling costs along with other related costs, potentially realising value lower than the Offer Price of $2.74 cash per Unit.

This strategy would also be subject to timing risks relating to delayed receipt of proceeds, Challenger Life or its related entities' rights of first refusal in relation to the co-owned properties, and also execution risks relating to potentially not receiving the current book values for properties.

A further buy-back of Units would likely require funding through asset sales and would further reduce liquidity

Further on-market buy-backs of Units would be earnings and NTA accretive given CDI's low marginal cost of debt (circa 3.5% as at 31 December 2013). However, a significant buy-back would likely move CDI's gearing outside the target range of 25%-35% in the absence of asset sales.

In addition, this strategy would further reduce CDI's free float, which could potentially result in the benefit of any additional accretion not being reflected in the trading price of Units.

No superior proposal has emerged or is likely to emerge given the Bidder and its associates already have a controlling interest in CDI

As at the date of this Target's Statement, CDI has not received any alternative superior proposal from a third party nor are there any discussions underway that the Independent Directors believe are likely to lead to any superior proposal being made.

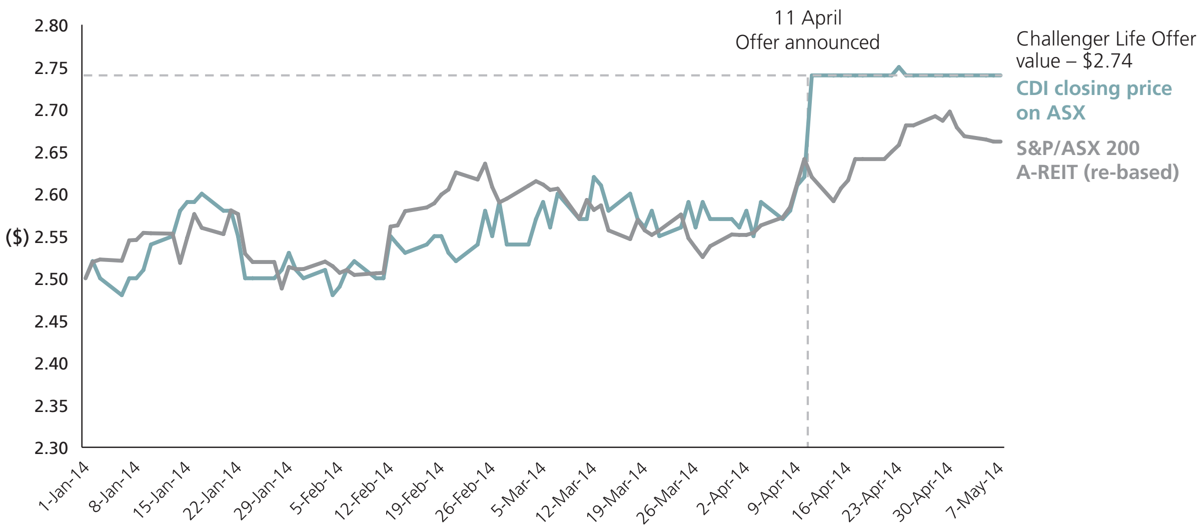
Given the time that has elapsed since the announcement of the takeover offer by the Bidder on 11 April 2014 to the date of this Target's Statement and the fact that the Challenger Group as at 6 May 2014 owned or controlled 81.25% of Units, the Independent Directors believe that a superior proposal is unlikely to emerge.

The Independent Expert has stated that in light of the size of the interest in CDI currently held by the Challenger Group and the time that has elapsed since announcement of the Offer, it considers that a superior proposal is unlikely to emerge.

(g) **If the Bidder does not become entitled to proceed to compulsory acquisition and if no superior proposal emerges, the price of Units may trade below the price of $2.74 per Unit offered by the Bidder**

The closing Unit price on ASX on 10 April 2014, being the last trading day prior to the announcement of the Offer, was $2.62. If the Offer is not successful and if no superior proposal emerges, the Independent Directors believe that the Unit price may trade below the Offer Price of $2.74 per Unit.

This assertion is supported by the chart below, which shows that the Unit price has outperformed the S&P/ASX A-REIT Index by 3.8% since 10 April 2014, being the last trading day prior to announcement of the Offer.[2]



(h) **There are risks in not accepting the Offer**

After the Offer Period ends, any Unitholders who do not accept the Offer will be subject to the following risks associated with the Challenger Group increasing its ownership of CDI:

- as the Bidder has already acquired voting power in more than 75% of Units, it and its associates can pass a special resolution at a general meeting of Unitholders. This entitles the Bidder to, among other things, change the constitution of Trust 1 and Trust 2;
- the Bidder has already stated that it intends to proceed to compulsory acquisition if the Bidder and its associates acquire a relevant interest in at least 90% of Units and it becomes entitled to proceed to compulsory acquisition of the remaining Units in accordance with section 661B of the Corporations Act. This will mean that you will be compelled to sell your Units to the Bidder but may not receive your consideration for a number of months. Any CDI distribution paid to Unitholders prior to compulsory acquisition will be deducted from the consideration payable by the Bidder;
- the liquidity of Units may be lower than at present, potentially impacting upon your ability to dispose of your Units at a price in line with the Offer Price of $2.74 per Unit;

2 Based on values between 10 April 2014 and 7 May 2014.

- effective from 1 May 2014, CDI has been removed from the S&P/ASX 300 and related indices as a result of the Challenger Group owning or controlling in excess of 70% of all Units and the offer being unconditional (as at 6 May 2014, Challenger Group owned or controlled 81.25% of all Units). The removal of CDI from these indices has the potential to reduce demand and/or preclude certain institutional investors from owning Units; and
- if there is not the spread of Unitholders required by the ASX Listing Rules to maintain a listing on ASX, CDI may be removed from the official list of ASX. If this occurs, Units will not be able to be acquired or sold on ASX.

Unitholders who do not accept the Offer will also continue to be exposed to the ongoing risks associated with an investment in CDI. Details of these ongoing investment risks are contained in section 9 of this Target's Statement.

Unitholders should also note that there are reasons for not accepting the Offer set out in section 1.2 of this Target's Statement. Details on the reasons why the Bidder considers you should accept the Offer are set out on pages 6 and 7 of the Bidder's Statement.

1.2 Possible reasons for not accepting the Offer

This section sets out some reasons why Unitholders may choose not to follow the unanimous recommendation of the Independent Directors to accept the Offer and instead decline to accept the Offer.

(a) **You may wish to remain a Unitholder in CDI**

If you accept the Offer, you will no longer be entitled to participate in the future financial performance of CDI or exercise the rights (including voting rights) of a Unitholder.

(b) **You may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion**

You may hold a different view to the Independent Directors and the Independent Expert and believe that the Offer Price of $2.74 per Unit is inadequate.

(c) **You may consider that there is potential for a superior proposal to emerge in the foreseeable future**

It is possible that a superior proposal for CDI could materialise in the future. However, as at the date of this Target's Statement, no alternative proposal has been received. As set out in section 1.1(f) of this Target's Statement, your Independent Directors believe that a superior proposal is unlikely to emerge.

(d) **You may consider that there is potential for investment property valuations to increase in the foreseeable future**

CDI's investment property valuations could increase in the future.

(e) **The tax consequences of the Offer may not be suitable to your financial position**

As set out in section 6 of this Target's Statement, acceptance of the Offer by Unitholders is likely to have tax implications. You should carefully read and consider the taxation consequences of accepting the Offer. Unitholders should not rely on the taxation considerations set out in section 5 of the Bidder's Statement or in this Target's Statement as being advice on their own affairs. Unitholders should consult with their own independent taxation advisers regarding the taxation implications of accepting the Offer given their particular circumstances.

2. Independent Directors' recommendation and Directors' interests

2.1 Directors of CLIL

As at the date of this Target's Statement, the Directors of CLIL are:

(a) Michael John Cole (Chairman);

(b) Geoffrey Keith McWilliam;

(c) Ian Ronald Moore;

(d) Brendan John O'Connor; and

(e) Robert John Woods.

Upon receipt of an initial indicative, incomplete and non-binding proposal from Challenger Life (**Initial Proposal**), the CLIL Board established the Independent Board Committee (**IBC**) with strict corporate governance protocols to consider the Initial Proposal and the Offer. The IBC is comprised of the Independent Directors Mr Cole, Mr McWilliam and Mr Moore.

Mr Woods and Mr O'Connor are executive directors of CLIL. Mr Woods reports to the Chief Executive Officer of Challenger, Brian Benari, and Mr O'Connor reports to both Mr Woods and the Group Chief Financial Officer of Challenger, Andrew Tobin, who in turns reports to Mr Benari. In that capacity, both Mr Woods and Mr O'Connor may be regarded as having an actual or potential conflict of interest in relation to the Offer. As such, neither Mr Woods nor Mr O'Connor participated in any decision by the IBC in relation to the Initial Proposal or the Offer and both declined to give a recommendation in relation to the Offer.

The IBC and its independent financial adviser, UBS AG, Australia Branch, undertook exclusive negotiations with Challenger Life in relation to the Initial Proposal and the Offer.

2.2 Independent Directors' recommendation and intentions

After taking into account the matters in this Target's Statement and in the Bidder's Statement, each of your Independent Directors recommend that you **ACCEPT** the Offer, in the absence of a superior proposal.

The reasons for the recommendation of each Independent Director are set out in section 1.1 of this Target's Statement.

As foreshadowed in CDI's ASX announcement dated 11 April 2014 and as disclosed in the Appendix 3Ys for Mr Cole, Mr McWilliam, Mr O'Connor and Mr Woods lodged with ASX, these Directors have sold all of the Units that they owned or controlled on-market.

2.3 Interests and dealings of Directors in Units

Director	Number of Units at the date of the Bidder's Statement	Number of Units as at 7 May 2014
Michael John Cole	200,000	0
Geoffrey Keith McWilliam	97,501	0
Ian Ronald Moore	0	0
Brendan John O'Connor	10,000	0
Robert John Woods	382,424	0

2.4 Interests and dealings of Directors in the Challenger Group

As at the date immediately before the date of this Target's Statement, no Director had a relevant interest in the Bidder or Challenger Life.

As at the date immediately before the date of this Target's Statement, no Director had a relevant interest in Challenger other than as noted below.

Director	Challenger shares
Robert John Woods	300,000
Geoffrey Keith McWilliam	90,000

Mr Brendan O'Connor and Mr Robert Woods also hold performance rights under Challenger's long term incentive plan. Details of the long term incentive plan can be found in the remuneration report within Challenger's 2013 Annual Report which is available on ASX's website **www.asx.com.au** and Challenger's website **www.challenger.com.au** under the 'Shareholder centre' tab.

No Director has acquired or disposed of a relevant interest in the Bidder or Challenger Life in the four month period ending on the date immediately before the date of this Target's Statement.

No Director has acquired or disposed of a relevant interest in Challenger in the four month period ending on the date immediately before the date of this Target's Statement other than as noted below.

Director	Challenger shares
Robert John Woods	281,666 (disposed)

2.5 Benefits and agreements

(a) Benefits to Directors

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the CLIL Board or a managerial office of CDI or CLIL or a related body corporate of CDI.

No Director has agreed to receive, or is entitled to receive, any benefit from the Challenger Group which is related to or conditional on the Offer, other than in their capacity as a holder of Units.

(b) Agreements in connection with or conditional on the Offer

No agreement has been made between any Director and any other person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of Units.

(c) Interests in contracts with the Bidder

No Director has any interest in any contract entered into by the Bidder.

3. Frequently asked questions

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Unitholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
Who is making the Offer?	Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust is the company making the Offer. The Bidder is a related entity of Challenger Life Company Limited (ABN 44 072 486 938). Challenger Life is a wholly owned subsidiary of Challenger Limited (ABN 85 106 842 371). Information in relation to the Bidder and the Challenger Group can be obtained in section 8 of this Target's Statement and in section 1 of the Bidder's Statement.
What is the Bidder offering for my Units?	The consideration under the Offer is $2.74 cash per Unit. The Bidder has declared the Offer final. This means the Bidder cannot increase the Offer Price. The cash consideration payable under the Offer will be reduced by the amount of any CDI distribution to which you become entitled following the date of the Bidder's Statement.
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by the Bidder which sets out the terms of the Offer, as required by the Corporations Act. The Bidder lodged its Bidder's Statement with ASIC on 11 April 2014. Unitholders should have recently received a copy of the Bidder's Statement in the post following its dispatch on 29 April 2014.
What is the Target's Statement?	This Target's Statement is the formal response by the CLIL Board to the Offer, as required by the Corporations Act. This document has been prepared by CLIL and contains important information to help you decide whether to accept the Offer.
What choices do I have as a Unitholder?	As a Unitholder, you have the following choices in respect of your Units: • accept the Offer; • sell all or some of your Units on ASX (unless you have previously accepted the Offer); or • do nothing and retain your Units. If you have already sold all your Units, no action is required. There are several implications in relation to each of the above choices. A summary of these implications is set out in section 4 of this Target's Statement. You should seek legal, financial or taxation advice from your professional adviser regarding the action that you should take in relation to the Offer.
What are the Independent Directors recommending?	Your Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal. The reasons for your Independent Directors' recommendation are set out in section 1.1 of this Target's Statement.

Question	Answer
What do the Directors intend to do with their Units?	The Directors with an interest in Units immediately before the date of the Bidder's Statement were Mr Cole, Mr McWilliam, Mr O'Connor and Mr Woods. As foreshadowed in CDI's ASX announcement dated 11 April 2014 and as disclosed in the Appendix 3Ys for Mr Cole, Mr McWilliam, Mr O'Connor and Mr Woods lodged with ASX, all the Directors (including the Independent Directors) have sold all of the Units that they owned or controlled on-market.
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. You are encouraged to read the Independent Expert's Report, contained in Appendix 1 of this Target's Statement.
Why should I accept the Offer?	You should **ACCEPT** the Offer for the following key reasons: • the Offer represents a premium to the trading price prior to the announcement of the Offer and the NTA of Units as at 31 December 2013; • the Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal; • the Offer provides certainty of value through 100% cash consideration; • the Offer provides superior value and/or lower risk compared to other identified strategic options for CDI; • the Offer has the unanimous support of the Independent Directors; • the Offer is unconditional and final and as such the Offer Price cannot be increased; • if the Bidder does not become entitled to proceed to compulsory acquisition and if no superior proposal emerges, the price of Units may trade below the price of $2.74 per Unit offered by the Bidder; and • there are risks in not accepting the Offer. See section 1.1 of this Target's Statement for further details of why you should accept the Offer and the risks in not accepting the Offer.
Why might I decline the Offer?	Possible reasons for not accepting the Offer are: • you may wish to remain a Unitholder; • you may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion; • you may consider that there is potential for a superior proposal to emerge in the foreseeable future; and • the tax consequences of the Offer may not be suitable to your financial position. See section 1.2 of this Target's Statement for further details of the possible reasons for not accepting the Offer.
How do I accept the Offer?	Instructions on how to accept the Offer are set out in section 7.3 of the Bidder's Statement.
How do I reject the Offer?	To reject the Offer, you do not need to do anything.

Frequently asked questions

Question	Answer
What are the consequences of accepting the Offer now?	If you accept the Offer, you will give up your right to sell your Units on-market or otherwise deal with your Units.
If I accept the Offer, can I withdraw my acceptance?	No. As the Offer is unconditional, once you accept the Offer you are unable to withdraw your acceptance.
Will I receive a distribution for the six months ending 30 June 2014?	Unitholders that are on the register on the distribution record date of 30 June 2014 who acquired their Units cum distribution will receive the distribution for the six months ending 30 June 2014 (estimated at 9.3 cents per Unit). The cash consideration under the Offer will, however, be reduced by the amount of any distribution paid such that Unitholders who accept the Offer will not receive more than $2.74 per Unit in total. If you do not accept the Offer and your Units are subsequently compulsorily acquired by the Bidder, the cash consideration payable under the compulsory acquisition process will also be reduced by the amount of any distribution paid to you.
When does the Offer close?	The Offer is currently scheduled to close at 7.00pm (Sydney time) on 28 May 2014, but as the Offer is unconditional, the Offer Period can be extended at any time before the end of the Offer Period.
What happens if there is a superior proposal from a third party?	If there is a superior proposal from a third party, the Independent Directors will reconsider their recommendation and advise Unitholders accordingly. If you have already accepted the Offer at such time, you will be unable to withdraw your acceptance. Accordingly, you will be unable to accept a superior proposal if one arises.
Is the Offer subject to any conditions?	No. The Offer is not subject to any conditions. This means that if you accept the Offer, you will be paid your consideration within five business days. Although the Offer is not subject to any conditions, the Independent Directors have provided Challenger Life with the assurances in relation to the conduct of CDI's business during the Offer Period announced to the market on 11 April 2014. See section 5.4 of this Target's Statement for further details of these assurances.
Can the Bidder increase the Offer Price?	As the Offer has been declared final, the Bidder cannot increase the Offer Price.
When will I receive the Offer Price if I accept the Offer?	The Bidder has agreed to pay the Offer Price for your Units on or before five business days after the date of your acceptance of the Offer. See section 7.6 of the Bidder's Statement for further details on when you will be paid the Offer Price by the Bidder for your Units on acceptance of the Offer.
What are the tax implications of accepting the Offer?	A general outline of the tax implications of accepting the Offer is set out in section 6 of this Target's Statement and section 5 of the Bidder's Statement. As the outline is general in nature, you should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer.

Question	Answer
Can I be forced to sell my Units?	You cannot be forced to sell your Units unless the Bidder acquires a relevant interest in at least 90% of all Units and is entitled to proceed to compulsory acquisition. If the Bidder proceeds to compulsory acquisition, you will receive the same consideration for your Units that you would have received under the Offer, that is $2.74 less the amount of any CDI distribution which you receive following the date of the Bidder's Statement. However, you are not likely to receive payment for your Units under compulsory acquisition until approximately five to six weeks after the compulsory acquisition process is commenced. The timing for payment is therefore dependent upon when the Bidder becomes entitled to, and commences, compulsory acquisition. Payment under compulsory acquisition may occur before or after 30 June 2014. See section 5.10 of this Target's Statement for more information.
Can I accept the Offer for only some of my Units?	No. You cannot accept the Offer for only some of your Units. You may only accept the Offer for all of your Units.
What is the register date?	The register date is 8.00am on 14 April 2014, being the date set by the Bidder pursuant to section 633(2) of the Corporations Act. The Offer relates to Units that exist or will exist as at the register date.
Can I sell my Units on-market?	You can sell all or some of your Units on-market unless you have accepted the Offer in respect of those Units. If you sell your Units on-market: • you may incur brokerage charges; • you will lose the ability to accept the Offer or any other offer which may eventuate; • you may receive more or less for your Units than the Offer Price; and • you will be paid on the third business day after the sale.
Can the Bidder extend the Offer?	Yes, the Bidder can extend the Offer in accordance with the Corporations Act. However, the Bidder has no obligation to do so.
Can the Bidder withdraw the Offer?	The Bidder can only withdraw the Offer with the consent of ASIC.
Will I need to pay brokerage or stamp duty if I accept the Offer?	No brokerage or stamp duty will be payable as a result of your acceptance of the Offer.
How can I get updates on the Unit price?	You can receive updates on the Unit price on ASX by visiting **www.asx.com.au**.
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further questions about the Offer, please contact the CDI unitholder information line on 1800 649 099 (within Australia) or +61 1800 649 099 (from outside Australia).

4. Your choices as a Unitholder

As a Unitholder, you have several choices available to you. You are encouraged to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Units.

The Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal, for the reasons set out in section 1.1.

4.1 Accept the Offer

You may choose to accept the Offer. Details of how to accept the Offer are set out in section 7.3 of the Bidder's Statement.

If you accept the Offer, you will not be able to sell your Units to anyone else, accept any superior proposal that may emerge or otherwise deal with your Units.

The taxation implications of accepting the Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian tax implications of accepting the Offer is set out in section 5 of the Bidder's Statement and section 6 of this Target's Statement. You should seek your own specific professional advice regarding the taxation consequences for you of accepting the Offer.

4.2 Sell your Units on ASX

You remain free to sell your Units on ASX, provided you have not already accepted the Offer.

On 7 May 2014 (the last practicable date prior to the finalisation of this Target's Statement), the closing unit price for Units on ASX was $2.74. The latest price for Units may be obtained from the ASX website at www.asx.com.au.

If you sell your Units on ASX, you:

- may incur a brokerage charge;
- will lose the ability to accept the Offer or any other offer which may eventuate;
- may receive more or less for your Units than the Offer Price; and
- will be paid on the third business day after the sale.

Unitholders who wish to sell their Units on ASX should contact their broker for information on how to effect that sale. They should also contact their tax adviser to determine the tax implications for them from such a sale.

4.3 Do nothing and retain your Units

If you do not wish to accept the Offer and want to retain your Units, you should simply do nothing.

However, you should note that:

- if the Bidder (and its associates) has a relevant interest in at least 90% of all Units during or at the end of the Offer Period and is entitled to proceed to compulsory acquisition, it has stated its intention to compulsorily acquire the outstanding Units that it does not already have a relevant interest in (see section 3.3 of the Bidder's Statement). Refer to section 5.10 of this Target's Statement for details on compulsory acquisition; and
- if the Bidder does not become entitled to compulsorily acquire your Units, you will be exposed to the risks of being a minority unitholder in CDI (see section 1.1(h) of this Target's Statement).

5. Important information about the Offer

5.1 Offer consideration

The consideration being offered by the Bidder is $2.74 cash for each Unit you own. The Offer has been declared final, meaning the Bidder cannot increase the Offer Price.

5.2 Offer Period

The Offer will be open for acceptance from 28 April 2014 until 7.00pm (Sydney time) on 28 May 2014, unless extended or withdrawn.

The circumstances in which the Bidder may extend or withdraw the Offer are set out in section 5.5 and section 5.6 respectively of this Target's Statement.

5.3 Bidder's funding of the Offer

Section 4.2 of the Bidder's Statement sets out the Bidder's funding arrangements for the Offer.

5.4 Offer conditions

As stated in section 6.3 of the Bidder's Statement, the Offer is not subject to any conditions. This means that if you accept the Offer, you will be paid your consideration within five business days.

Although the Offer is unconditional, the Independent Directors have provided Challenger Life with assurances in relation to the conduct of CDI's business during the Offer Period. CLIL in its capacity as the responsible entity of CDI and CDI's subsidiaries will not:

(a) other than as agreed with Challenger Life, acquire or dispose of, or offer or agree to acquire or dispose of, any one or more entities or assets (or any interest in one or more entities, businesses or assets) for an amount or consideration in excess of $1 million for any individual item;

(b) make, determine as payable, or declare a CDI distribution (whether by way of dividend, capital reduction or otherwise, and whether in cash or in specie), other than a distribution in relation to the six-month period ending 30 June 2014, of an amount which is consistent with CDI's previously released distribution guidance. The Offer Price will be reduced by the amount of any CDI distribution; or

(c) take any action which may cause an event specified in section 652C of the Corporations Act to occur. These events are referred to as the 'prescribed occurrences' and include a reduction of capital, buy-back of securities, issue of securities, disposal of the whole or a substantial part of the business or property of CDI, grant of a security interest in the whole or a substantial part of the business or property of CDI and a winding up or liquidation.

Should CLIL undertake any of these actions, it will not prevent you getting paid your consideration for accepting the Offer.

5.5 Extension of Offer Period

As the Offer is unconditional, the Bidder may extend the Offer Period at any time before the end of the Offer Period.

5.6 Withdrawal of Offer

The Bidder may not withdraw the Offer if you have already accepted it. Before you accept the Offer, the Bidder may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

5.7 Effect of acceptance

The effect of acceptance of the Offer is set out in section 7.4 of the Bidder's Statement. You should read these provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Units and the representations and warranties which you will be giving the Bidder by accepting the Offer. In particular, accepting the Offer will prevent you from selling your Units during the Offer Period.

Furthermore, as noted in section 7.5 of the Bidder's Statement, by accepting the Offer you represent and warrant to the Bidder that, at the time of your acceptance and at the time the transfer of your Units to the Bidder is registered, all of your Units are and will be fully paid and the Bidder will acquire good title to them and full beneficial ownership free from all encumbrances (as defined in the Bidder's Statement).

5.8 When you will receive the Offer consideration

The Bidder has agreed to pay the Offer Price for your Units on or before five business days after the date of your acceptance of the Offer.

See section 7.6 of the Bidder's Statement for further details on when you will be paid the Offer Price by the Bidder for your Units on acceptance of the Offer.

5.9 Improvement in the Offer consideration

As the Offer has been declared final, the Bidder cannot increase the consideration payable under the Offer.

5.10 Follow on compulsory acquisition within one month after the end of the Offer Period

The Bidder has stated in section 3.3 of the Bidder's Statement that if it becomes entitled to proceed to compulsory acquisition in accordance with the Corporations Act, it intends to compulsorily acquire any outstanding Units.

Under Part 6A.1 of the Corporations Act, the Bidder will be entitled to compulsorily acquire any outstanding Units for which it has not received acceptances on the same terms as the Offer if, during or at the end of the Offer Period, the Bidder (together with its associates):

(i) has relevant interests in at least 90% (by number) of the Units; and

(ii) has acquired at least 75% (by number) of the Units that the Bidder offered to acquire under the Offer (whether the acquisitions happened under the Offer or otherwise).[3]

If these thresholds are met, the Bidder will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Unitholders who have not accepted the Offer. The consideration payable by the Bidder will be the Offer Price less the amount of any distribution paid to you after the date of the Bidder's Statement.

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3 Any Units that the Bidder or its associates had a relevant interest in at the start of the Offer Period are excluded from the 75% calculation.

Unitholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Unitholders to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for the Units.

Unitholders should therefore be aware that if they do not accept the Offer and their Units are compulsorily acquired, those Unitholders will face a delay in receiving the consideration for their Units compared with Unitholders who have accepted the Offer. You are likely to receive payment for your Units under compulsory acquisition approximately five to six weeks after the compulsory acquisition process is commenced.

5.11 General compulsory acquisition at a later time

Should the Bidder not become entitled to proceed to compulsorily acquire outstanding Units in the manner described in section 5.10, the Bidder has indicated that it may, at some later time, acquire further Units in a manner consistent with the Corporations Act. If as a result of acquiring further Units the Bidder becomes a '90% holder' (i.e. if the Bidder (either alone or with a related body corporate) holds full beneficial interests in at least 90% of Units (by number)) under Part 6A.2 of the Corporations Act, the Bidder will be entitled to compulsorily acquire any outstanding Units.

If this threshold is met, the Bidder will have six months after the Bidder becomes a 90% holder within which to give compulsory acquisition notices to Unitholders. The compulsory acquisition notices sent to Unitholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out whether the terms of the compulsory acquisition give a 'fair value' for the Units and the independent expert's reasons for forming that opinion.

If Unitholders with at least 10% of Units the subject of compulsory acquisition object to the acquisition before the end of the objection period (which must be at least one month), the Bidder may apply to the court for approval of the acquisition of the Units covered by the compulsory acquisition.

5.12 Bidder's intentions

Section 3 of the Bidder's Statement sets out the Bidder's intentions in respect of the business and operations of CDI following the Offer.

If the Bidder does not become entitled to compulsorily acquire the outstanding Units but increases its ownership of CDI, it has stated that:

- (**corporate matters**) it intends to maintain CDI's listing on ASX, subject to the requirements for listing (including a sufficient spread of investors) continuing to be satisfied (although in this event the liquidity of trading in Units on ASX may be diminished);
- (**further acquisition of Units**) the Bidder or Challenger Life may, at some later time, acquire further Units in a manner consistent with the Corporations Act; and
- (**compulsory acquisition at a later time**) if Challenger Life becomes entitled at some later time to exercise general compulsory acquisition rights under the Corporations Act, it may exercise those rights.

Please refer to section 3 of the Bidder's Statement for further details on the Bidder's intentions.

6. Taxation

6.1 Scope

The following summary is of a general nature and is based on our understanding of the Australian income tax, capital gains tax (CGT), goods and services tax (GST) and stamp duty implications arising for Unitholders from the disposal of their Units by acceptance of the Offer.

CLIL is not licensed or authorised to provide tax advice and this summary should not be construed as advice. Further, this summary does not consider any specific facts or circumstances that may apply to particular Unitholders. We therefore recommend that you seek your own professional advice regarding the Australian tax consequences of disposing of Units.

This summary only applies to Unitholders who hold their Units on capital account for Australian income tax purposes. In particular, it does not apply to Unitholders who buy and sell shares and/or units in the ordinary course of business or who otherwise hold their Units on revenue account or as trading stock. In addition, the summary does not apply to Unitholders whose Units are subject to the 'taxation of financial arrangements' rules in Division 230 of the Income Tax Assessment Act 1997.

The information in this summary is based upon the Australian taxation law and practice in effect at the date of this Target's Statement.

6.2 Taxation on disposal of Units

(a) CGT consequences: general position

Unitholders who accept the Offer will dispose of their Units for consideration of $2.74 cash per Unit, reduced by the amount of any distribution to which the Unitholder is entitled after 11 April 2014. The disposal of Units pursuant to the Offer will constitute a CGT event.

The time of the CGT event will be when the contract to sell the Units comes into existence. This should be the time at which the Unitholder accepts the Offer. If the Units are sold under the compulsory acquisition process described in section 5.10, the time of the CGT event will be when the Unitholder ceases to be the owner of the Units.

Each Unit consists of one unit in Trust 1 and one unit in Trust 2, and as such, each Unit constitutes two separate assets for CGT purposes. Therefore, on accepting the Offer, each Unitholder will dispose of their units in each of Trust 1 and Trust 2, and in respect of each disposal will make a capital gain or loss equal to the difference between the capital proceeds received for their Units (i.e. the cash received under the Offer); and:

- the cost base of their Units for the purposes of calculating a capital gain; or
- the reduced cost base of the Units for the purposes of calculating a capital loss.

The calculation of the cost base (or reduced cost base) in the units in each of Trust 1 and Trust 2 must take account of tax deferred distributions that have been made from that trust while the units were held by the Unitholder. The cost base or reduced cost base is reduced by tax deferred components of distributions received, unless those amounts have been included in the taxpayer's assessable income. Distributions (and their tax deferred components) paid from 31 December 2006 have been as follows (with all distributions relating to Trust 1).

Period ended	Distribution – cents per unit[4]	Annual tax deferred component of distribution
31 December 2013	9.20	25.91%[5]
30 June 2013	9.20	31.78%
31 December 2012	8.60	31.78%
30 June 2012	8.60	8.66%
31 December 2011	8.20	8.66%
30 June 2011	8.00	14.09%
31 December 2010	8.00	14.09%
30 June 2010	8.60	48.88%
31 December 2009	8.20	48.88%
30 June 2009	12.00	43.02%
31 December 2008	14.80	43.02%
30 June 2008	16.92	52.39%
31 December 2007	16.88	52.39%
30 June 2007	15.52	50.37%
31 December 2006	6.40	50.37%

Unitholders will be required to apportion the costs and the proceeds of disposal of their Units for the purpose of calculating the cost base or reduced cost base and the proceeds of disposal attributable to their Units in each trust. The Commissioner of Taxation will generally accept an apportionment that has been done on a reasonable basis. As detailed on CDI's website (**http://www.challenger.com.au/cdi**), from 30 June 2009 to 31 December 2013 the net asset allocation is 100% to Trust 1 and 0% to Trust 2. This represents a possible basis of apportionment.

All of a Unitholder's capital gains and capital losses in an income year will be aggregated to determine whether there is a net capital gain or a net capital loss for that income year. Broadly, a net capital gain for an income year is the total of all capital gains made in the income year less capital losses made in the income year and available capital losses made in previous years. The net capital gain may be reduced by the discount capital gains tax rules discussed below. The taxable amount is included in the taxpayer's assessable income and is subject to income tax at the applicable income tax rate.

If a Unitholder makes a capital loss from the disposal of units in Trust 1 and/or Trust 2, the capital loss may be used to offset capital gains made in the same or subsequent income years (subject to satisfying any applicable carry forward loss conditions) but cannot be offset against ordinary income, nor carried back to offset net capital gains arising in earlier income years.

4 Distributions prior to August 2012 have been adjusted to reflect the 1 for 4 Unit consolidation that occurred in August 2012.

5 Estimated based on CDI's 31 December 2013 distribution. The final tax deferred component of distributions for the year ending 30 June 2014 will be determined after 30 June 2014.

(b) **Discount capital gains rules**

For Unitholders who are individuals, or hold the Units as trustee of a trust or a complying superannuation fund, and have held the Units for more than 12 months at the date of disposal, the discount capital gain provisions should apply as follows to a capital gain arising from the disposal of their units in Trust 1 and/or Trust 2:

(i) If the Unitholder is an individual, one half of the capital gain, after offsetting any applicable capital losses, will be included in assessable income.

(ii) If the Unitholder is acting as a trustee of a trust (but not a superannuation fund), one half of the capital gain, after offsetting any applicable capital losses, will be included in the 'net income' of the trust. The discount capital gains provisions may also apply to capital gains to which beneficiaries in the trust (other than beneficiaries that are companies) are presently entitled. The CGT provisions applying to trustees and beneficiaries of trusts are complex and you should seek advice from your professional tax adviser in this regard.

(iii) If the Unitholder is a complying superannuation fund, two-thirds of the capital gain after offsetting applicable capital losses will be included in the fund's assessable income.

The discount capital gain provisions do not apply to companies.

(c) **CGT for Unitholders who are not Australian residents**

Unitholders who are not residents of Australia for Australian income tax purposes will generally not be subject to CGT on the disposal of their Units if:

- the Unitholder did not hold the Units at any time in carrying on a business at or through a permanent establishment in Australia; and
- the Unitholder (either alone or together with associates) did not hold 10% or more of the total number of Units on issue at the time of disposing of the Units or throughout a 12-month period in the 24 months before disposing of the Units.

A non-resident Unitholder which does not satisfy both of those exemption conditions should seek advice on the application of the Australian CGT rules, including the extent (if any) to which the discount capital gains rules apply in calculating any taxable gain.

6.3 Entitlement to distribution prior to acceptance

Unitholders who become entitled to a distribution prior to acceptance should not include the distribution as part of the capital proceeds of the sale of the shares for CGT purposes. The distribution should be subject to the taxation rules that generally apply to distributions.

6.4 GST

GST should not generally be payable by the Unitholders in respect of the disposal of Units under the Offer. To the extent Unitholders incur GST on acquisitions they make in connection with the Offer (such as adviser fees), they may not be entitled to an input tax credit or only be entitled to a reduced input tax credit for that GST, depending on the Unitholder's particular circumstances.

6.5 Stamp duty

Any stamp duty will be payable by the Bidder in relation to the acquisition of Units under the Offer.

7. Information relating to CDI

7.1 Overview

CDI listed on ASX on 23 October 2006 and offers investors exposure to a diversified portfolio of high quality, well located properties, with stable income returns and potential for capital growth. CDI is a traditional A-REIT deriving a significant majority of its revenue from rental income from its passive property investments.

CDI is constituted by two trusts, Trust 1 and Trust 2. Trust 1 holds CDI's 'passive' property assets whilst Trust 2 operates the Domain car park. CLIL is the Responsible Entity of both trusts. Each Unit is a stapled unit comprising one unit in Trust 1 and one unit in Trust 2.

7.2 Vision and strategy

CDI's strategy has clearly defined objectives which are to:

- actively manage and add value to a diversified and environmentally sustainable portfolio;
- improve leasing metrics by actively managing tenant relationships and expiries to provide sustainable rental income growth; and
- actively manage its capital structure to deliver an efficient cost of capital.

CDI's vision is to be the preferred mid-cap Australian diversified REIT and a member of the S&P/ASX 200 Property Accumulation Index.

7.3 Portfolio overview

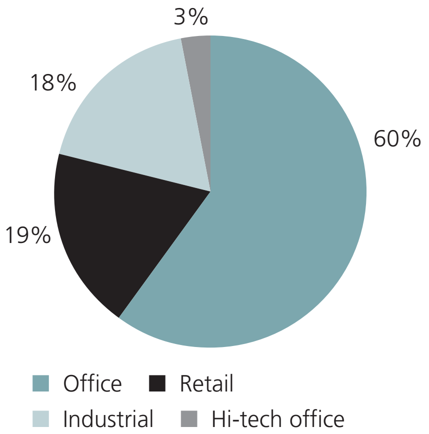
CDI's diversified investment portfolio consists of 26 office, retail and industrial properties with 93% (by value) in Australia and 7% in France. CDI also holds a leasehold interest in respect of Sydney's Domain Car Park, which expires in 2033. CDI is continuing to work towards its medium-term objective of being a 100% Australian focused REIT via a staged sale of its French properties.

The carrying value of the total portfolio as at 31 December 2013 was $867 million, which reduces to $852 million post the sale of 187 Todd Road, Port Melbourne, which is expected to settle in May 2014.

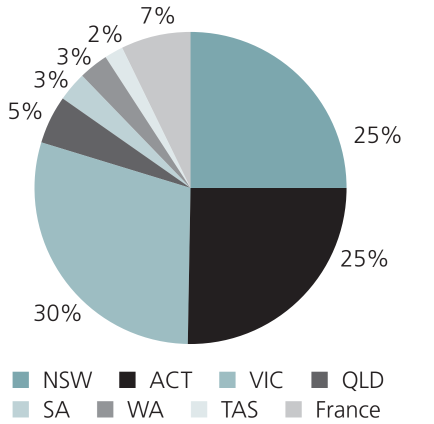
In addition to the medium-term objective of selling the French portfolio of assets, CDI will look to dispose of its interest in the remaining hi-tech office asset, Taylors House, Waterloo.

An overview of CDI's diversified property portfolio is set out below[6]:

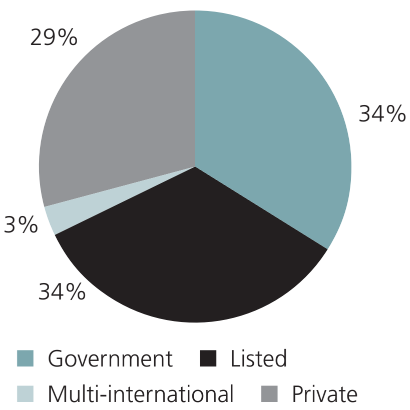
Portfolio sector diversification (by value)



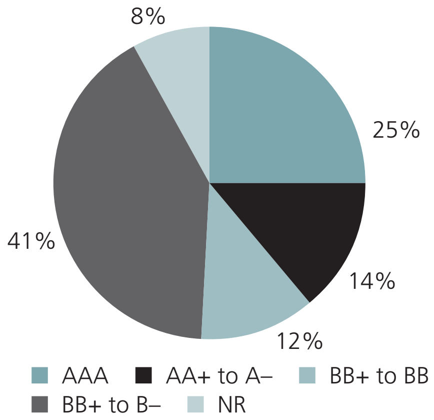
Geographic diversification (by value)



Tenant diversification by corporate type (by income)



CDI tenant credit ratings



6 Numbers may not add due to rounding.

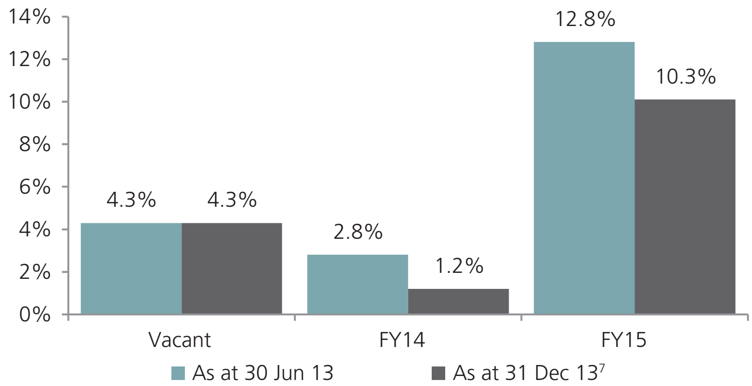
Property	Location	Ownership interest (%)	Lettable area (sqm)	Occupancy at 31 Dec. 2013 (by income) (%)	Weighted average lease expiry (WALE) (by income) (years)	Current valuation ($m)	Current market cap rate (%)
Office portfolio							
ABS House	Belconnen, ACT	60	31,050	100.0	3.2	82.0	8.75
31 Queen Street	Melbourne, VIC	100	19,310	85.3	2.8	96.2	8.00
DIBP Building	Belconnen, ACT	60	29,530	100.0	5.8	71.5	8.25
The Forum, Cisco	St Leonards, NSW	60	16,577	100.0	3.3	65.4	8.25
Discovery House	Woden, ACT	60	22,239	100.0	8.7	60.0	8.00
Makerston House	Brisbane, QLD	60	14,650	85.1	2.5	42.5	9.25
The Forum, Verizon	St Leonards, NSW	60	11,713	69.9	2.2	41.5	8.75
Elder House	Adelaide, SA	60	14,086	100.0	2.3	25.2	9.75
Executive Building	Hobart, TAS	60	9,887	100.0	1.5	19.8	8.50
Office portfolio total/average			**169,043**	**93.2**	**3.7**	**504.0**	**8.46**
Retail portfolio							
Jam Factory	South Yarra, VIC	60	20,115	100.0	10.4	75.3	7.25
Century City Walk	Glen Waverley, VIC	100	8,304	100.0	5.0	32.5	8.25
Innaloo Cinema Centre	Woodlands, WA	60	11,550	100.0	4.7	26.4	8.00
Kings Langley Shopping Centre	Kings Langley, NSW	60	4,157	100.0	6.1	10.8	8.00
Retail portfolio total/average			**44,125**	**100.0**	**7.8**	**145.0**	**7.67**
Industrial portfolio							
The Junction, Stage 2	Enfield, NSW	100	20,360	100.0	8.5	35.5	7.75
The Junction, Stage 1	Enfield, NSW	100	13,437	100.0	2.0	20.0	8.50
6 Foray Street	Fairfield, NSW	100	17,152	100.0	1.4	13.1	10.50
Spotlight	Laverton North, VIC	100	20,723	100.0	7.5	17.8	8.25
12-30 Toll Drive	Altona North, VIC	100	13,885	100.0	2.1	14.0	8.75
2-10 Toll Drive	Altona North, VIC	100	6,273	100.0	4.1	5.9	8.50
1-9 Toll Drive	Altona North, VIC	100	3,239	100.0	2.1	3.9	8.50
Distribution portfolio total/average			**95,069**	**100.0**	**4.7**	**110.2**	**8.49**
Hi-tech office							
Taylors House	Waterloo, NSW	60	10,998	93.7	3.8	25.5	9.25
Hi-tech office portfolio total/average			**10,998**	**93.7**	**3.8**	**25.5**	**9.25**
Australian portfolio total/average			**319,234**	**95.4**	**4.6**	**784.6**	**8.35**
French portfolio							
Sully	Sully sur Loire	100	15,500	100.0	4.0	12.6	9.75
Aulnay	Aulnay sous Bois, Paris	100	5,105	100.0	1.8	16.4	6.95
Beziers	Villeneuve les Beziers	100	9,135	100.0	1.7	12.7	8.50
Gennevilliers	Gennevilliers, Paris	100	7,409	100.0	7.2	11.4	7.25
Tours	Parcay–Meslay, Tours	100	5,610	100.0	4.7	7.6	8.65
French portfolio total/average			**42,759**	**100.0**	**3.7**	**60.7**	**8.12**
Investment portfolio total/average			**361,993**	**95.7**	**4.6**	**845.3**	**8.33**
Development portfolio							
The Junction, Stage 3	Enfield, NSW	100	N/A	–	–	6.8	–

7.4 Leasing

CDI remains focused on reducing current vacancies and future lease expiries to strengthen future earnings, with leasing activity being a key driver of EPU.

The weighted average lease expiry of the portfolio was 4.6 years and occupancy was 95.4% as at 31 December 2013. A pro forma adjustment for the sale of 187 Todd Road results in WALE flat at 4.6 years and occupancy increasing to 95.7%.

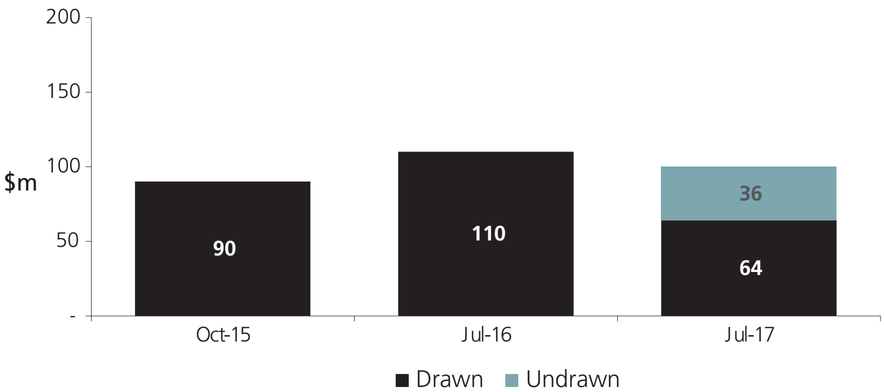
FY14 expiries stand at 1.2% and FY15 expiries have been reduced from 30 June 2013 to 10.3% as illustrated below:



7.5 Capital management

In June 2013, CDI refinanced its entire $300 million debt facility. The refinancing presented an opportunity to lengthen the term and continue with a staggered maturity profile, whilst capitalising on a favourable lending market. As a result of the refinance, the weighted average term of debt increased to 3.2 years and the weighted average drawn margin reduced by 33 basis points. CDI has no refinancing requirements until FY16 with its current undrawn debt facilities providing both flexibility and a liquidity buffer.

CDI's pro forma debt maturity profile is illustrated below:



Pro forma debt maturity profile as at 31 December 2013, after allowance for payment of 1H14 distribution ($19.7 million), sale of Todd Road ($14.9 million) and includes bank guarantees issued by CDI ($1.1 million).

7 Pro forma for sale of Todd Road.

The following table details CDI's debt metrics as at 31 December 2013 after adjusting for payment of the 1H14 distribution ($19.7 million) and the sale of 187 Todd Road ($14.9 million).

31 December 2013	Australia	France	Consolidated
Borrowings ($m)	204	59	263
Pro forma balance sheet gearing	25.2%	95.7%	30.2%
Facility gearing (total liabilities to total tangible assets)	28.3%	98.4%	33.3%
Proportion hedged	95.7%	–	74.1%
Weighted average hedged term – years	3.0	–	3.0
Cost of drawn debt (including margin)	5.9%	2.0%	5.0%
Weighted average undrawn commitment fee			0.8%
Interest cover ratio			4.2
Weighted average term of available debt (years)			2.7

7.6 Distribution history and guidance

For the six months ended 31 December 2013, CDI generated normalised earnings of $23.9 million, with normalised earnings per Unit increasing by 4% from the six months ended 31 December 2012, to 11.1 cents per Unit. Statutory net profit after tax, which includes the impact of changes to property valuations and other adjustments, decreased by $5.6 million to $15.2 million.

The distribution for the six months ended 31 December 2013 was 9.2 cents per Unit, which was up 7% from the six months ended 31 December 2012. This distribution represents a normalised profit payout ratio of 82% and was paid on 28 February 2014.

On 4 February 2014, CLIL reaffirmed its normalised earnings and distribution per Unit guidance for the 2014 full year, with expected EPU of 22.3 cents and an expected DPU of 18.5 cents, both representing a 4% increase on FY13.

The FY14 normalised earnings per Unit guidance does not include the allowance for the payment of any performance fee. Based on the Offer Price of $2.74 and subject to the performance of CDI's benchmark, the S&P/ASX 200 Property Trusts (Sector) Accumulation Index, a performance fee may be payable for the financial year ending 30 June 2014. In the event that a maximum performance fee is payable, normalised earnings per Unit would reduce by 1 cent per unit. CDI's distribution guidance of 18.5 cents per Unit would remain unchanged.

The following table illustrates CDI's normalised earnings and distribution history for each six-month period from 31 December 2009.

Six months ending	EPU	DPU	Payout ratio
	cents	cents	
31-Dec-09	11.8	8.2	70%
30-Jun-10	10.9	8.6	79%
31-Dec-10	11.1	8.0	72%
30-Jun-11	8.5	8.0	94%
31-Dec-11	10.7	8.2	77%
30-Jun-12	9.6	8.6	90%
31-Dec-12	10.7	8.6	80%
30-Jun-13	10.1	9.2	91%
31-Dec-13	11.1	9.2	83%

Trust 2 has not declared or paid a distribution to Unitholders since listing. The above distributions have all been paid by Trust 1.

7.7 Board and senior management

The Directors of CLIL as at the date of this Target's Statement are:

- Michael John Cole (Chairman)

  Mr Cole is a Graduate of the University of Sydney in Economics and holds a Master of Economics. He is also a Fellow of the Financial Services Institute of Australia. Mr Cole has over 30 years' experience in the investment banking and funds management industry. He was an executive director at Bankers Trust Australia for over a decade. Mr Cole is currently Chair of Platinum Asset Management Ltd, Ironbark Capital Limited, and IMB Ltd (Illawarra Mutual Building Society). As well, Mr Cole is a director of NSW Treasury Corporation. In 2007, Mr Cole retired as Chair of SAS Trustee Corporation, a position he held from 2000.

  Mr Cole is a member of the CLIL Audit and Compliance Committee.

- Geoffrey Keith McWilliam (Non-executive Director, Independent)

  Mr McWilliam has had an extensive career in the Australian property investment industry. Mr McWilliam spent 10 years to 2005 building the Commonwealth Bank's property funds management and corporate real estate division, Colonial First State Property. As head of this business, he was responsible for the management and performance of over $16 billion in listed and unlisted property funds. Prior to this, Mr McWilliam spent 23 years with Lend Lease Corporation in a variety of senior management roles including international postings. Over the last five years, Mr McWilliam has been appointed to various property groups as an independent director.

  Mr McWilliam is a director of Lend Lease Funds Management Limited, Lend Lease Asian Retail Investments Limited, Lend Lease Real Estate Investments Limited, the Gandel Group Limited, ProTen Limited, LaSalle Funds Management Limited and the Dusseldorp Skills Forum Incorporated, and is a Fellow of the Australian Property Institute.

  Mr McWilliam is a member of the CLIL Audit and Compliance Committee.

- **Ian Ronald Moore (Non-executive Director, Independent)**

  Mr Moore has extensive experience in investment banking and structured finance. Mr Moore was Head of Corporate Finance at Bankers Trust Investment Bank, where he was responsible for all forms of corporate debt, project debt and asset backed debt financings. Prior to that, Mr Moore was Head of Fixed Income at Bankers Trust where he was responsible for the trading and placement of all government, corporate and securitised debt. Mr Moore was a member of Bankers Trust's Investment Bank Management Committee and a partner of Bankers Trust globally. Mr Moore is currently a non-executive director and a member of the Audit Committee of the Clean Energy Finance Corporation. Mr Moore was a non-executive director of Artesian Capital Management from 2005 to 2008.

  Mr Moore is Chair of the CLIL Audit and Compliance Committee.

- **Brendan John O'Connor (Executive Director, Non-independent)**

  Mr O'Connor is the Chief Financial Officer for Challenger's Funds Management division. Mr O'Connor is responsible for the services that support the Funds Management business as well as the financial management and reporting for the Funds Management division's funds, including the Challenger Diversified Property Group.

  Mr O'Connor joined Challenger in 2006 as General Manager Group Finance. In 2007, Mr O'Connor was appointed as Chief Financial Officer of Challenger's Asset Management business, before assuming his current role in 2008. Prior to joining Challenger, Mr O'Connor held senior finance roles with Westpac Banking Corporation.

- **Robert John Woods (Executive Director, Non-independent)**

  Mr Woods is Chief Executive, Funds Management at Challenger. Mr Woods has held this role since 2008. The Funds Management business manages investments in property, infrastructure, fixed income and mortgages via its Challenger Investment Partners Business, as well as partnering boutique investment managers in the Fidante Partners multi-boutique platform.

  Mr Woods joined Challenger in 2003 and was initially the Chief Executive of Challenger Life which included Challenger's annuity business and the creation of Challenger's asset management business, before assuming his current role.

  Prior to joining Challenger, Mr Woods held senior investment banking roles at Zurich Capital Markets and Bankers Trust.

The senior management team responsible for CDI is as follows:

- **Trevor Hardie – CDI Fund Manager**

  Mr Hardie joined Challenger in 1999 and was appointed as Fund Manager for CDI in March 2008. In this role, Mr Hardie has specific responsibility for the ongoing management of CDI. This includes responsibility for strategy, financial and investment performance and transaction evaluation and execution.

  Prior to his appointment as Fund Manager, Mr Hardie was Portfolio Manager for CDI, responsible for maximising the financial and physical outcomes from the CDI property portfolio. Mr Hardie has held a number of senior roles within Challenger's property division including General Manager of Challenger Income Property Trust (previously Village Entertainment Property Trust), Head of Property Asset Management, and most recently Head of Property for Challenger Life.

Mr Hardie has 29 years' experience in the property investment industry, including roles in funds management, asset management and property development.

- Tim Evans – Assistant CDI Fund Manager

  Mr Evans joined Challenger in December 2004 in the role of Senior Performance Analyst for the Asset Management division. In April 2008, he was appointed to the role of Assistant Fund Manager, with specific responsibility for forecasting and monitoring fund performance through the development and maintenance of the Fund model and assessing and reviewing the feasibility of capital management alternatives and strategic projects. From February 2007 to April 2008 he was the Senior Property Analyst for both the Challenger Diversified Property Group and Challenger Kenedix Japan Trust.

  Mr Evans has 16 years' experience in the finance and accounting industry, including six years with PricewaterhouseCoopers, with roles in accounting, advisory, tax and audit.

7.8 Recent ASX announcements

Since 4 February 2014 (being the date on which CDI released its 31 December 2013 half-year results), CDI has made a number of ASX releases which CDI considers to be material to the financial position and affairs of CDI. These announcements are listed in Appendix 2.

8. Information relating to the Bidder and Challenger Group

Details of the Bidder are contained in section 1 of the Bidder's Statement. A summary of the Bidder is set out below.

8.1 Overview of the Bidder

The Bidder is Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee for Challenger Australia Listed Property Holding Trust. The Bidder is a related entity of Challenger Life. The units in the Challenger Australia Listed Property Holding Trust are held by Challenger Life.

The directors of the Bidder are Victoria Kate Hartley, Karen Robbins and Gregory John Thomas. Ms Hartley, Ms Robbins and Mr Thomas are all Challenger Group executives.

8.2 Overview of Challenger Life

Challenger Life is the leading provider of annuities and guaranteed retirement income solutions in Australia, and is a life company registered under the Life Insurance Act 1995. Challenger Life guarantees the capital and interest in annuitants' regular payments, providing reliable income to around 60,000 investors through its management of $10.7 billion in assets.

It is regulated by the Australian Prudential Regulation Authority (APRA) and must hold a minimum amount of capital, set by APRA, to ensure it can meet all investors' payments into the future.

8.3 Relationship to Challenger

Challenger Life is a wholly owned subsidiary of Challenger, an ASX-listed investment management firm established in 1985. As at 31 March 2014, Challenger manages more than $49.5 billion of assets and has a market capitalisation of approximately $3.3 billion. In addition to operating Challenger Life, Challenger also operates a fiduciary funds management business, managing more than $45 billion.

9. Risk factors

In considering this Target's Statement and the Offer, Unitholders should be aware that there are a number of risks which may affect the future operating and financial performance of CDI. Some of the risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of CDI and cannot be mitigated. The principal risks you should consider, when deciding whether to maintain your investment in CDI, in the present circumstances, include the following matters set out below.

9.1 Risks relating to CDI

As a Unitholder, you are already exposed to certain general risks associated with your investment in CDI, including:

- (**Fair value of properties**) the risk that the value of CDI's property portfolio will fall, adversely impacting NTA. Factors relevant to determining property values include rent, occupancy levels and property market yield, and these may change significantly over time for a variety of reasons;
- (**Co-ownership and rights in relation to properties**) the risk of co-owning properties with Challenger Life or its related entities and the associated restrictions. Of CDI's total property portfolio of $852[8] million, CDI has a 60% holding in properties valued at $546[8] million, which are co-owned with Challenger Life or its related entities. Challenger Life or its related entities have, in certain circumstances, rights to acquire the co-owned properties including:
  - the right to acquire CDI's interest in the co-owned properties at fair value, as determined by an independent valuer, in the event of a change of control (i.e. CLIL ceasing to be the responsible entity for either of Trust 1 or Trust 2 unless the replacement or additional responsible entity is a member of the Challenger Group or the winding up of either Trust 1 or Trust 2 being commenced for any reason) or if CDI is insolvent or in default of its obligations under the co-owners' agreements; and
  - a right of first refusal prior to any dealing in the properties by CDI;
- (**Property risk**) the risk associated with illiquid investments in property assets which may prevent CDI disposing of its assets in a timely manner. To the extent that CDI invests in properties for which there may be only a limited number of potential investors, the realisable value of those assets may be less than the full value indicated by CDI's expectations of future cash flows from the relevant properties or the book value of those assets;
- (**Tenant risk**) the risk of current tenants defaulting on rental or other obligations under leases with CDI, and of CDI not being able to negotiate lease extensions with current tenants at the end of the lease terms or securing replacement leases at equivalent rates, which may have material adverse impacts on CDI's distribution or the value of the relevant underlying property;
- (**Changes in property market**) the risk of changes to any of the property markets in which CDI currently or in the future holds assets, as this may affect the value of the assets that comprise CDI's portfolio, which could, in turn, affect the performance of CDI. In addition, the supply of competing existing or new buildings may affect CDI's ability to secure lease renewals, retain existing tenants or obtain new tenants;
- (**Capital expenditure**) the risk of exposure to capital costs (including repairs) for the properties in which CDI has an interest;

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8 On 4 April 2014, CDI announced the sale of 187 Todd Road for $26.25 million (100%) to Podco investment syndicate. 187 Todd Road was co-owned by CDI (60%) and Challenger Life (40%) and is excluded from this value. The sale is expected to settle in May 2014.

- (**Fixed nature of significant costs**) the risk of significant expenditures associated with each asset, such as finance costs, maintenance costs, management fees and rates and taxes are generally not reduced when circumstances cause a reduction in income from the asset;
- (**Debt covenants**) the risks associated with the various covenants in relation to CDI's banking facilities. Factors such as falls in asset values, depreciation of the Australian dollar against the Euro and the inability to achieve timely asset sales at prices acceptable to CDI could lead to a breach in debt covenants. In such an event, CDI's lenders may require their loans to be repaid immediately. Other relevant provisions in the facility agreement include that a review event will occur if CLIL ceases to be the responsible entity of CDI (except if CLIL is replaced as responsible entity by another member of the Challenger Group), which may result in debt becoming due for repayment;
- (**Interest rate risk**) the risk of fluctuations in interest rates, to the extent that they are not hedged, which may adversely impact the cost of debt and result in decreased earnings;
- (**Foreign exchange rate risk**) the risk that fluctuations in currencies to which CDI has exposure, to the extent they are not hedged, which may adversely impact on the cost of debt and result in decreased earnings;
- (**Availability of funding**) the risk of not obtaining the necessary funding or refinancing of existing arrangements, or a material increase in the cost of such funding. If CDI is unable to obtain funding for future refinancing and acquisitions on appropriate terms, there is a risk it will not have the liquidity to fund future acquisitions and operations or debt maturities as they fall due;
- (**Financial forecasts**) the risk that any of the assumptions used in preparing the financial forecasts may not be achieved, such that the FY14 EPU and FY14 DPU guidance cannot be achieved;
- (**Reliance on responsible entity and manager**) the risk associated with Unitholders relying on the manager for the day-to-day control of the operations and investment decisions of CDI. CDI's success depends largely on the performance of the manager. The loss of key personnel of the manager could have an adverse effect on the investment performance of CDI;
- (**Insurance risk**) the risk of failing to insure or underinsuring against events in respect of assets, contractors and service providers;
- (**Environmental issues**) the risk of possible liability for the cost of removal or remediation of hazardous or toxic substances on, under, in or emanating from the properties in CDI's portfolio, and changes to environmental laws and regulations which may impact this risk profile;
- (**Economic and market conditions**) the risks relating to changes in general economic and stock market conditions such as interest rates, inflation, retail spending levels, employment growth, consumer confidence levels and general market levels; and
- (**Changes in applicable law**) the risk of laws (including taxation) to which CDI is subject changing over time.

In addition to the above, there are certain risks associated with the Offer set out below which should be taken into account in considering whether to accept the Offer or not.

Risk factors

(a) **Liquidity risk**

The Challenger Group (which includes the Bidder and Challenger Life) is already the majority unitholder in CDI. As at 6 May 2014, the Challenger Group had a relevant interest in CDI of 81.25%. If the Bidder acquires additional Units under the Offer but not all the Units, the number of Units publicly traded could be reduced significantly. In addition, under item 9 of section 611 of the Corporations Act, the Challenger Group may increase its voting power in CDI by 3% every six months without needing to make a further takeover offer. In light of these factors, there is a risk of Unitholders who do not accept the Offer becoming minority unitholders in CDI with significantly reduced trading liquidity in Units.

This may result in downward pressure on the trading prices of Units and make it more difficult for Unitholders to sell their Units.

(b) **Control by the Challenger Group**

As at the announcement of the Offer on 11 April 2014, Challenger Group (which includes the Bidder and Challenger Life) owned or controlled approximately 58.7% of all Units. Since then, the Bidder has acquired Units at $2.74 per Unit and, as at 6 May 2014, Challenger Group owned or controlled approximately 81.25% of all Units.

10. Additional information

10.1 Issued capital

As at the date of this Target's Statement, CDI's issued capital consisted of 214,101,013 Units.

10.2 Substantial holders

As at 6 May 2014 (the last practicable date prior to the finalisation of this Target's Statement), the substantial holders of Units are:

Substantial Unitholders	Number of Units	Voting power at time of notice
Challenger Group	173,950,232	81.25%

10.3 Performance fees

CLIL, as responsible entity of CDI, is entitled under the constitution of Trust 1 and Trust 2 to a performance fee if CDI's accumulation index (as calculated by Standard & Poor's) outperforms the S&P/ASX 200 Property Trusts (Sector) Accumulation Index.

If CLIL is entitled to a performance fee, it is calculated and payable in accordance with the constitution of Trust 1 and Trust 2 each financial year. The performance fee rate is calculated as 5% of the first 2% of outperformance and 15% of outperformance in excess of 2%. This rate is multiplied by CDI's average gross asset value for the relevant financial year. The fee is capped at 0.25% of CDI's gross asset value as at 30 June of the relevant financial year.

CLIL may be entitled to a performance fee in respect of the financial year ending on 30 June 2014, which must be paid within two months of that date, that is before 31 August 2014. The quantum of performance fee cannot be calculated until 30 June 2014 or the date CDI is removed from the official list of ASX should this occur earlier than 30 June 2014. Should CLIL be entitled to a full performance fee for the financial year ending 30 June 2014, this would equate to approximately $2.2 million.

CLIL has determined that if a performance fee is payable for the financial year ending 30 June 2014, it will be paid out of retained earnings and not impact the FY14 distribution.

The payment of any performance fee will not impact the Offer Price.

10.4 Consents

Each of the parties named in the table below as consenting parties:

(a) has given and has not, before the date of this Target's Statement, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named;

(b) has given and has not, before the date of this Target's Statement, withdrawn its written consent to the inclusion of the respective statements or reports noted next to its name below, and the references to those statements or reports in the form and context in which they are included in this Target's Statement;

(c) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to below in respect of that party's name (and consented to by that party); and

(d) to the maximum extent permitted by law, accepts no liability in connection with this Target's Statement.

Consenting party	Named as	Report or statements
Deloitte Corporate Finance Pty Limited	Independent Expert	Independent Expert's Report set out in Appendix 1
UBS AG, Australia Branch	Financial adviser	N/A
Ashurst Australia	Legal adviser	N/A
Link Market Services Limited	Share registry	N/A

ASIC has published various Class Orders that modify or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. CDI has relied on that ASIC Class Order relief.

As permitted by ASIC Class Order 01/1543, this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Target's Statement.

Any Unitholder who would like to receive a copy of any of those documents may obtain a copy free of charge during the Offer Period by contacting the CDI unitholder information line on 1800 649 099 (within Australia) or +61 1800 649 099 (from outside Australia).

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

Pursuant to this ASIC Class Order, the consent of such persons to whom statements or documents are attributed is not required for the inclusion of those statements in this Target's Statement.

10.5 Continuous disclosure

CDI is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with ASX may be obtained from the ASX website at **www.asx.com.au** and CDI's website at **http://www.challenger.com.au/cdi**.

Copies of the documents lodged with ASIC in relation to CDI may be obtained from, or inspected at, an ASIC office.

Unitholders may obtain a copy of:

- CDI's annual report;
- the constitution for Trust 1 and Trust 2; and
- any document lodged by CDI with ASX between the release of CDI's annual report and the date of this Target's Statement,

free of charge upon request by contacting the CDI unitholder information line on 1800 649 099 (within Australia) or +61 1800 649 099 (from outside Australia) or from the ASX website at **www.asx.com.au**. CDI's annual report, the constitutions of Trust 1 and Trust 2 and this Target's Statement are also available on CDI's website at **http://www.challenger.com.au/cdi**.

10.6 No other material information

This Target's Statement is required to include all the information that Unitholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Unitholders and their professional advisers to expect to find the information in this Target's Statement; and
- only if the information is known to any Director.

The IBC is of the opinion that the information that Unitholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in CDI's releases to ASX, and in the documents lodged by CDI with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The IBC has assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Independent Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the IBC has had regard to:

- the nature of the Units;
- the matters that Unitholders may reasonably be expected to know; and
- the fact that certain matters may reasonably be expected to be known to Unitholders' professional advisers.

11. Glossary and interpretation

11.1 Definitions

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by it, as the context requires.

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

Bidder means Challenger Life Nominees Pty Ltd (ABN 39 091 336 793) as trustee of Challenger Australia Listed Property Holding Trust.

Bidder's Statement means the bidder's statement received by CDI from the Bidder under Part 6.5 Division 2 of the Corporations Act dated 11 April 2014.

CDI means the Challenger Diversified Property Group comprising both Trust 1 and Trust 2.

Challenger or **CGF** means Challenger Limited (ABN 85 106 842 371).

Challenger Group means Challenger and its related bodies corporate (including for the avoidance of doubt Challenger Life and the Bidder).

Challenger Life means Challenger Life Company Limited (ABN 44 072 486 938).

CLIL means Challenger Listed Investments Limited (ABN 94 055 293 644).

CLIL Board means the board of directors of CLIL.

Corporations Act means the Corporations Act 2001 (Cth).

Deloitte Corporate Finance means Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127).

Directors means the directors of CLIL as at the date of this Target's Statement.

DPU means distribution per Unit.

EPU means normalised earnings per Unit.

FY14 DPU means the distribution per Unit for the financial year ending 30 June 2014.

FY14 EPU means the normalised earnings per Unit for the financial year ending 30 June 2014.

IBC means the Independent Board Committee comprising the Independent Directors.

Independent Directors means Michael John Cole, Geoffrey Keith McWilliam and Ian Ronald Moore.

Independent Expert means Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127).

Independent Expert's Report means the report produced by the Independent Expert set out in Appendix 1 of this Target's Statement.

NTA means net tangible assets.

Offer means the offer by the Bidder for all Units, which is contained in section 7 of the Bidder's Statement.

Offer Period means the period during which the Offer will remain open for acceptance in accordance with section 7.2 of the Bidder's Statement.

Offer Price means the consideration offered under the Offer, being $2.74 cash per Unit as at the date of this Target's Statement.

REIT means Real Estate Investment Trust.

Target's Statement means this document (including any attachments), being the statement of CDI under Part 6.5 Division 3 of the Corporations Act.

Trust 1 means Challenger Diversified Property Trust 1 (ARSN 121 484 606).

Trust 2 means Challenger Diversified Property Trust 2 (ARSN 121 484 713).

Unit means a fully paid stapled unit in CDI, each such stapled unit comprising one unit in Trust 1 and one unit in Trust 2.

Unitholder means a person registered in the register of members of CDI as a holder of Units.

WALE means Weighted Average Lease Expiry.

11.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

(a) headings are inserted for convenience and do not affect the interpretation of this Target's Statement;

(b) words and phrases in this Target's Statement have the same meaning given to them (if any) in the Corporations Act;

(c) the singular includes the plural and vice versa;

(d) a gender includes all genders;

(e) a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;

(f) if a word is defined, another part of speech has a corresponding meaning;

(g) a reference to a section or appendix is a reference to a section or appendix of this Target's Statement;

(h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(i) unless expressly stated otherwise, a reference to time is a reference to Sydney time; and

(j) unless expressly stated otherwise, a reference to dollars, $, A$ or AUD is a reference to the lawful currency of Australia.

12. Authorisation

This Target's Statement is dated 8 May 2014 and has been approved by a resolution passed by the Directors of CLIL.

Signed for and on behalf of CLIL:

Michael Cole
Independent Chairman
Challenger Listed Investments Limited

Appendix 1: Independent Expert's Report and Financial Services Guide

Deloitte.

Challenger Diversified Property Group

Independent expert's report and Financial Services Guide

8 May 2014

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and related regulated emissions units (i.e., carbon) to retail and wholesale clients. We are also authorised to provide general financial product advice relating to derivatives to retail clients and personal financial product advice relating to derivatives to wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately $140,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer	Financial Ombudsman
Services	
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	info@fos.org.au
complaints@deloitte.com.au	www.fos.org.au
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

Deloitte.

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The Independent Directors
Challenger Listed Investments Limited as responsible entity for
Challenger Diversified Property Group
Level 15, 255 Pitt Street
Sydney NSW 2000

8 May 2014

Dear Directors

Independent expert's report

Introduction

Challenger Diversified Property Group (**CDI**) is a stapled group comprising Challenger Diversified Property Trust 1 (**CDI 1**) and Challenger Diversified Property Trust 2 (**CDI 2**) with interests in 27 office, retail and industrial assets located in Australia and France as well as a lease to operate the Domain Cark Park until 30 April 2033 (the **Properties**).

The responsible entity of CDI is Challenger Listed Investments Limited (**CLIL**).

On 11 April 2014 (**Announcement Date**), Challenger Life Nominees Pty Ltd as trustee of Challenger Australia Listed Property Holding Trust (**Challenger Life BidCo** or the **Bidder**), a related entity of Challenger Life Company Limited (**Challenger Life**) announced an off-market takeover offer (**Takeover Offer**) for all of the units of CDI for cash consideration of $2.74 per unit (**the Consideration**). Challenger Life BidCo stated that the consideration under the offer will not be increased and will be reduced by the amount of any distribution per unit declared subsequent to 11 April 2014, the date that the bidder's statement was issued by Challenger Life BidCo (**Bidder's Statement**). The Takeover Offer is scheduled to close on 28 May 2014.

As at the Announcement Date, Challenger Life and entities associated with Challenger Limited (**Challenger**) held approximately 58.7% of CDI's issued units.

Purpose of the report

As Challenger Life BidCo and its associates have an interest in excess of 30% in CDI, the Takeover Offer is a related party takeover the subject of Section 640 of the Corporations Act (**Section 640**). Section 640 requires that the directors of the target commission an independent expert's report to provide an opinion on whether the transaction envisaged is fair and reasonable to unitholders.

The independent directors of CLIL (**Independent Directors**) have engaged Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) to prepare an Independent Expert's Report (**IER**) in order to provide an opinion as to whether the Takeover Offer is fair and reasonable in accordance with Section 640.

Basis of evaluation

RG 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of s611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the units subject to the takeover offer. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium) irrespective of whether control is being attained through the transaction
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, unitholders should accept the takeover offer, in the absence of any higher bids before the close of the offer.

To assess whether the Takeover Offer is fair and reasonable, we have adopted the tests of whether the Takeover Offer is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Definition of value

Our valuation analysis is based on the concept of fair market value, which we have defined as the amount at which the units in CDI would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

Summary and conclusion

In our opinion the Takeover Offer is fair and reasonable, in the absence of a superior proposal. In arriving at this opinion, we have had regard to the following factors.

The Takeover Offer is fair

According to ASIC Regulatory Guide 111, in order to assess whether the proposal is fair, the independent expert is required to compare the fair market value of a unit in CDI on a control basis with the fair market value of the consideration offered. The Takeover Offer is fair if the value of the consideration is equal to or greater than the value of the units subject to the offer.

Set out in the table below is a comparison of our assessment of the fair market value of a CDI unit on a control basis with the consideration offered by Challenger Life BidCo.

Table 1: Fair market value of CDI unit as implied by the Takeover Offer

		Low (AUD)	High (AUD)
Estimated fair market value of a CDI unit (Section 4.2)	$ per unit	2.69	2.73
Estimated fair market value of cash consideration offered	$ per unit	2.74	2.74

*Note1: All amounts stated in this report are in Australian Dollars (**AUD**) unless otherwise stated and may be subject to rounding*
Source: Deloitte Corporate Finance analysis

The consideration offered by Challenger Life BidCo is above the range of our estimate of the fair market value of a CDI unit. Accordingly it is our opinion that the Takeover Offer is fair.

Valuation of CDI

For the purpose of assessing the fair market value of a unit in CDI on a control basis, we have estimated the fair market value of CDI with reference to a net asset approach since real-estate investment trusts (**REITs**) such as CDI carry investment properties on their balance sheet at fair value (which is consistent with the definition of fair market value) and the investment properties are revalued at every balance sheet date either by the directors or by independent real estate appraisers.

In estimating the fair market value of a unit in CDI we have applied the net assets on a going concern basis which is the most common approach utilised when valuing REITs such as CDI which are largely passive. In doing so, we have estimated the current fair market value of the underlying net assets of CDI by aggregating the current fair market value of the Properties as well as any other related assets and liabilities, including an estimate of the undistributed income of CDI and an estimate of the ongoing costs of managing CDI attributable to a potential acquirer of 100% its units.

We have used the balance sheet of CDI as at 31 December 2013 and made adjustments to reflect changes to the value of CDI's assets and liabilities between 31 December 2013 and 28 May 2014 (being the date that the Takeover Offer closes).

We have estimated the fair market value of a CDI unit to be in the range of $2.69 to $2.73 as set out in the table below.

Table 2: Fair market value of CDI unit as assessed by Deloitte Corporate Finance

	Section	Unit	Low value	High value
Net assets of CDI as at 31 December 2013		**$ million**	**582.4**	**582.4**
Fair market value adjustments				
Changes in value of investment assets	4.2.1	$ million	1.0	2.0
Mark-to-market of derivative instruments	4.2.4	$ million	0.0	0.0
Undistributed income	4.2.3	$ million	15.8	18.0
Ongoing costs	4.2.2	$ million	(23.5)	(17.6)
Fair market value as at 28 May 2014		$ million	**575.7**	**584.8**
Number of CDI units on issue		million	214.1	214.1
Fair market value per unit		**$ / unit**	**2.69**	**2.73**

Source: Deloitte Corporate Finance analysis

The Takeover Offer is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for unitholders to accept the offer in the absence of any higher bid before the close of the offer.

In our opinion as the Takeover Offer is fair it is therefore reasonable. However, we have considered the following factors in assessing the reasonableness of the Takeover Offer.

Advantages of the Takeover Offer

The likely advantages to unitholders excluding Challenger Life BidCo and its associates (**Non-Associated Unitholders**) if the Takeover Offer is accepted include:

Limited prospects of alternative offer or for Non-Associated Unitholders to otherwise realise higher value

The Takeover Offer is unconditional, has no minimum acceptance threshold and has been declared final by Challenger Life BidCo.

Since the Announcement Date, the relevant interest in CDI held by Challenger Life BidCo and its associates has increased from 58.7% to 81.25% as of 6 May 2014 indicating that 53% of Non-Associated Unitholders have accepted the Takeover Offer.

A higher offer from Challenger Life BidCo or an alternate acquirer seems remote in the current circumstances since:

- Challenger Life BidCo has declared the Takeover Offer 'final'. ASIC's 'Truth in Takeovers' policy[1] requires that "market participants that make a last and final statement should be held to it", which means a higher offer by Challenger Life BidCo is not legally permissible
- a higher offer from a third party is unlikely due to the size of the interest in CDI currently held by Challenger Life BidCo and its associates' as no offer could succeed without their support. Since the Announcement Date no other offers have been made for CDI nor are there any discussions underway that the Independent Directors believe are likely to lead to any superior proposal being made.

[1] ASIC, Regulatory Guide 25: Takeovers: False and misleading statements

In light of the above and the time that has elapsed since the Announcement Date, we consider that a superior proposal is unlikely to emerge.

In the absence of an alternative offer, the options available to Non-Associated Unitholders are to maintain the status quo or seek an orderly realisation of the assets of CDI. However, neither of these options represents a compelling alternative relative to the Takeover Offer since:

- if the status quo is retained:
  - it is likely that, based on the existing ownership structure of CDI and current market conditions, the unit price of CDI would decline, potentially to a level in line with trading prior to the announcement of the Takeover Offer (or even lower in light of the significantly reduced liquidity of CDI) which represented a discount to its net tangible assets (**NTA**) and the Consideration
  - Challenger Life BidCo and its associates will retain all the units acquired during the Takeover Offer (currently 81.25% of the units on issue of CDI) and could continue acquiring units on market - potentially at a discount to the price offered pursuant to the Takeover Offer, although limited to up to 3% of the issued units of CDI every 6 months. As a result:
    - since Challenger Life BidCo currently has voting power in excess of 75% of the units of CDI, it is able to pass a special resolution at a general meeting of unitholders which would enable it to, among other things, change the constitutions of CDI 1 and CDI 2
    - the existing lack of liquidity in CDI's units would be exacerbated. Whilst this may not be as adverse for unitholders with no near term desire to exit the investment who are therefore comfortable with existing liquidity levels, this could nonetheless have adverse implications for CDI's unit price
    - if the Australian Securities Exchange (**ASX**) requirement in respect of spread of unitholders is not fulfilled, CDI may be removed from the official list of ASX. If this occurs, units will not be able to be acquired or sold on the ASX
    - on 29 April 2014, CDI announced that S&P Dow Jones Indices had advised that CDI would be removed from the S&P/ASX All Ordinaries and related indices effective from 1 May 2014 as a result of Challenger Life BidCo and its related entities achieving an interest in excess of 70% in CDI. As a result, institutional interest in CDI is likely to be reduced and some investors may be compelled to divest their stake which could adversely impact the price of CDI units
    - the likelihood of receiving a control premium in the future would be very low.
  - CDI is largely a passive trust that is externally managed with no near term expectations of any significant NTA growth and is currently within its targeted gearing threshold. Any further growth would therefore need to be funded from recycling of capital and/or raising equity. However, if CDI were to continue to trade a discount to NTA, as was the case prior to the Announcement Date, raising equity would be dilutive to NTA. In addition, there is a risk of near term earnings dilution due to the intention to divest the French portfolio which is currently funded at very low costs.
- any strategy to realise the net assets of CDI in an orderly manner would be subject to additional costs and uncertainties including:
  - transaction costs (including legal and other adviser fees), disposal fees payable to CLIL as well as potential tax leakage
  - uncertainty in respect of the pricing and timing for the sale of the properties such as the French assets as well as the ultimate distribution of the net proceeds to unitholders
  - there could be potential challenges and/or delays in divesting properties co-owned with Challenger Life due to its right of first refusal in respect of these properties.

In addition to the alternatives set out above, the Independent Directors have considered conducting further buy-backs of CDI units and formed the conclusion that all alternatives identified are either not viable, are of a higher risk profile or, if executed, are not expected to provide a more compelling proposition relative to the Takeover Offer.

There may be other risks to Non-Associated Unitholders that do not accept the Takeover Offer

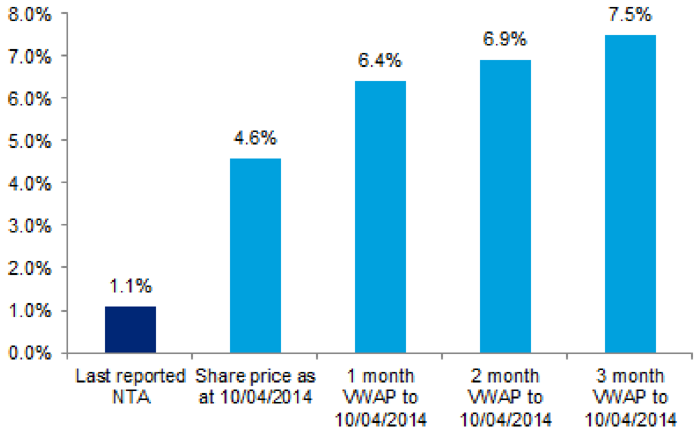
The Takeover Offer is unconditional and therefore does not include any minimum acceptance conditions. As a result, Challenger Life BidCo and its associates will retain all the units acquired during the Takeover Offer. There could be adverse consequences to Non-Associated Unitholders that do not accept the Takeover Offer including:

- Challenger Life BidCo could decide to delist CDI which would further limit the options available to remaining unitholders. However, Challenger Life BidCo has not stated an intention to de-list CDI in the event that it and its associates do not acquire a relevant interest in at least 90% of units of CDI, thereby reducing the likelihood of this occurring
- the Bidder has stated that it intends to proceed to compulsory acquisition if it and its associates acquire a relevant interest in at least 90% of units of CDI and it becomes entitled to proceed to compulsory acquisition in accordance with Section 661B of the Corporations Act. In this scenario, Non-Associated Unitholders that do not accept the Takeover Offer will be compelled to sell their units but may not receive the consideration for doing so for a number of months. Any distributions paid to Non-Associated Unitholders prior to compulsory acquisition will be deducted from the consideration payable by the Bidder.

Allows unitholders to exit at a modest premium to the unit price and NTA

The Consideration represents a premium to the most recently reported NTA of CDI as well as to recent trading in CDI units as set out below:

Figure 1: Premium implied by the Consideration



Source: Target's Statement, Deloitte Corporate Finance analysis

As set out above, the Consideration represents a 1.1% premium to the last reported NTA of CDI and a premium of between 4.6% and 7.5% to recent trading in CDI units. Whilst these premiums are relatively modest, any upside potential to these premiums would be constrained by the following factors:

- CDI is largely a passive trust that is externally managed with no near term expectations of any significant NTA accretion
- in the absence of the Takeover Offer, it is likely that, based on the existing ownership structure of CDI and current market conditions, the unit price of CDI would decline, potentially to a level in line with trading prior to the announcement of the Takeover Offer and perhaps even lower due to the reduced liquidity discussed above.

The Takeover Offer provides the certainity of cash consideration with no brokerage costs

The Takeover Offer will allow Non-Associated Unitholders to immediately realise their investment in CDI for cash consideration which provides certainty in respect of timing and quantum of the proceeds to be realised for their investment.

Whilst the unit price of CDI has generally traded in line with the Consideration since the Announcement Date, in the event that Non-Associated Unitholders were to realise their investment by selling on-market they would likely incur transaction costs (e.g. brokerage).

Disadvantages of the Takeover Offer

The likely disadvantages to Non-Associated Unitholders if the Takeover Offer is accepted include:

Reinvestment risks

CDI provides an attractive yield and exposure to the diversified property sector that may be difficult/costly for unitholders to replicate.

Whilst there is no certainty that the value of CDI's properties will appreciate, general market sentiment indicates that there is potential for further appreciation in the value of the properties – largely from further capitalisation rate compression rather than rental growth. Any appreciation in the value of the portfolio over time would be likely to translate to an improvement in the NTA value of CDI. Non-Associated Unitholders will forgo this exposure to any short to medium term upside in the values of the Properties.

In addition, a draft masterplan for the Sydney Botanic Gardens and Domain was released in April 2014. This plan is in the early stages and has not received any approvals. The impact on CDI's lease terms with Royal Botanic Gardens and Domain Trust (**BGT**) is therefore uncertain. There is the potential that CDI's Domain Car Park lease could benefit from any such redevelopment but it is not possible to quantify any upside potential at this stage and there is no certainty that any such upside potential will be realised.

Other considerations

Tax consequences

Acceptance of the Takeover Offer may result in adverse tax consequences for some Non-Associated Unitholders as this may result in tax payable in the short-term, which would otherwise have been deferred until such time the units were subsequently disposed.

Non-Associated Unitholders should evaluate any capital gains or other tax consequences of acceptance in assessing whether to accept the Takeover Offer.

Further details of the tax consequences to Non-Associated Unitholders is set out in Section 6 of the Target's Statement.

Potential benefits to the Bidder

Due to the existing interest in CDI as well as the co-ownership of certain properties with CDI, there may be additional benefits available to Challenger Life BidCo and its associates, however, we consider any such benefits to be minimal since:

- the value we have attributed to CDI's property investments is based on estimates of the full underlying value of each property in the portfolio. The underlying valuations of CDI's property investments represent a "control" value (i.e. assume 100% ownership of the assets and the value of assets in which less than 100% is owned has been based on a pro-rata of the value derived assuming 100% ownership). We do not consider there to be any material upside in the value of the properties in the event that CDI is owned 100% by Challenger Life BidCo and its associates
- Challenger Life BidCo may realise cost benefits from managing CDI upon attaining 100% control of CDI units. Our assessed value of CDI includes significant cost synergies which we consider would be realised by a potential acquirer of 100% of CDI.

Conclusion on reasonableness

On balance, in our opinion, the advantages of the Takeover Offer outweigh the disadvantages.

Opinion

In our opinion the Takeover Offer is fair and reasonable, in the absence of a superior proposal.

An individual unitholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. If in doubt the unitholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Rachel Foley-Lewis

Director

Tapan Parekh

Director

Glossary

Reference	Definition
31 December 2013 Valuations	Valuation of CDI's properties undertaken as at 31 December 2013
AFSL	Australian Financial Services Licence
Announcement Date	Date of the public announcement of Challenger Life's off market takeover offer to CDI (11 April 2014)
APESB	Accounting Professional and Ethical Standards Board Limited
AREIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
AUD	Australian dollars
AUASB	Auditing and Assurance Standards Board
BBSW	Bank bill swap rate
BGT	Royal Botanic Gardens and Domain Trust
bps	Basis points
CAGR	Compound annual growth rate
CBA	Commonwealth Bank of Australia
CBD	Central Business District
CDI	Challenger Diversified Property Group
CDI 1	Challenger Diversified Property Trust 1
CDI 2	Challenger Diversified Property Trust 2
Challenger	Challenger Limited
Challenger Life or CLC	Challenger Life Company Limited
Challenger Life BidCo or the Bidder	Challenger Life Nominees Pty Ltd as trustee for Challenger Australia Listed Property Holding Trust
CLIL	Challenger Listed Investments Limited
CMSL	Challenger Management Services Limited
Consideration	Cash consideration of $2.74 per Unit
Co-Owned Properties	Properties co-owned by CDI (60% interest)a and Challenger Life (40% interest)
Co-Owners' Agreement	CLIL and Challenger Life entered an agreement governing the properties co-owned by CDI and Challenger Life
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Directors	Directors of CLIL
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FSG	Financial Services Guide
FY	Financial year
IBIS	IBIS World Pty Ltd
IER	Independent experts' report
Independent Directors	Directors of CDI who are not also directors of Challenger Life
Interpark	InterPark Australia Pty Ltd
IPO	Initial Public Offering
Manager	The entity in charge of the management of CDI, or CMSL
Non-Associated Unitholders	Unitholders excluding Challenger
NPAT	Net profit after tax
NTA	Net tangible assets
Offer Period	Period from 11 April 2014 (Announcement Date) to 28 May 2014 (date the Takeover Offer closes)
PDS	Product Disclosure Statement
Properties (the)	Property investments owned by CDI
RE	The Responsible Entity of CDI ,or CLIL
RG 111	ASIC Regulatory Guide 111 in relation to the content of independent expert's report
RG112	ASIC Regulatory Guide 112 in respect of the independence of experts
Section 640	Section 640 of the Corporations Act 2001
Unitholders	Existing holders of CDI units
Takeover Offer	Challenger Life BidCo's offer to acquire all of the outstanding units in CDI
Units	CDI units
Updated Valuations	Valuation of CDI's properties updated since 31 December 2013
WALE	Weighted average lease expiry
Westpac	Westpac Banking Corporation Limited

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Contents

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1 Overview of the Takeover Offer

1.1 Background of the bidder

Challenger Life is a provider of annuities and guaranteed retirement income solutions in Australia. Challenger Life is also a life company registered under the Life Insurance Act 1995 and is regulated by APRA.

Challenger Life Bidco is a related entity of Challenger Life, an ASX-listed investment management firm established in 1985. Challenger manages more than $48.8 billion of assets and has a market capitalisation of approximately $3.3 billion. In addition to operating Challenger Life, Challenger also operates a fiduciary funds management business, managing more than $45 billion.

The units in the Challenger Australia Listed Property Holding Trust are held by Challenger Life.

1.2 Takeover Offer

On 11 April 2014 , Challenger Life BidCo announced an off-market takeover offer for all of the units of CDI for cash consideration of $2.74 per Unit. On the same date Challenger Life BidCo released the associated Bidder's Statement.

The Bidder has stated that the consideration under the Takeover Offer will not be increased. The Consideration payable will be reduced by the amount of any distributions to which CDI unitholders become entitled following the date of the Bidder's Statement.

The Consideration will be satisfied by the payment of cash in Australian dollars. Based on the existing relevant interest held by Challenger Life BidCo and its associates as at the date of the Bidder's Statement, the maximum amount of cash payable by Challenger Life BidCo is anticipated to be $243 million which Challenger Life BidCo has stated will be sourced from its existing cash resources.

1.3 Intentions of the bidder

From the Announcement Date until 28 May 2014 (**Offer Period**), Challenger Life BidCo also intends to conduct on-market purchases of units in accordance with item 2 of section 611 of the Corporations Act.

In the event that the Takeover Offer results in the Challenger Life BidCo and its associates acquiring relevant interests in 90% or more of the issued units and it becomes entitled to proceed with compulsory acquisition of the remaining CDI units, Challenger Life BidCo intends to proceed with the compulsory acquisition of the remaining CDI units.

Challenger Life BidCo has also considered scenarios in which it and its associates acquire a relevant interest in less than 90% of the CDI units and is unable to undertake compulsory acquisition. In those circumstances, Challenger Life BidCo will assess the matter at the relevant time, but its current intention is, along with retaining ownership of any units acquired through the Takeover Offer, to retain CLIL (with a majority of independent directors) as the responsible entity of CDI.

Other stated intentions of Challenger Life BidCo in the event that it is entitled to proceed to compulsory acquisition or not are as follows:

Table 3: Challenger Life's intentions

Item	Entitled to proceed to compulsory acquisition	Not entitled to proceed to compulsory acquisition
Corporate matters	• Compulsory acquisition of remaining units and delisting of CDI • Consider whether objectives would be best served by CLIL as responsible entity • Review the holding structure of CDI and CDI's assets with a view to determining the optimal structure under 100% Challenger Life ownership	• CDI's listing on ASX would be maintained, subject to the requirements for listing (including a sufficient spread of investors) continuing to be satisfied • Challenger Life or Challenger Life BidCo may, at some later time, acquire further units in a manner consistent with the Corporations Act. • If entitled at some later time, Challenger Life may exercise general compulsory acquisition rights under the Corporations Act
Intention for CDI assets	• Conduct a review of CDI's assets to assess portfolio fit. Current expectation is that most or all of CDI's property portfolio will become part of Challenger Life's core property portfolio.	• Generally continue the operations of CDI; and • Not make any major changes to the operations of CDI nor to redeploy any of the fixed assets of CDI
CDI borrowings	• Challenger Life BidCo has made no final determination in relation to CDI's existing financing arrangements. However, its current intention is to keep existing arrangements in place (subject to obtaining relevant consents and/or waivers from existing financiers of CDI).	• n/a
General operational review	• Broad-based general review of CDI's corporate structure, assets and operations. This review will apply quantitative and qualitative factors to measure performance and areas for improvement	• n/a

Source: Bidder's Statement

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2 Basis of evaluation

2.1 Purpose of the report

Pursuant to Section 640 of the Corporations Act, an independent expert's report is required to assist Non-Associated Unitholders in their decision whether to accept or reject the Takeover Offer. This report is to be included in the Target's Statement to be sent to CDI unitholders. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

2.2.1 Guidance

In undertaking the work associated with this report, we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's reports (**RG 111**), and ASIC Regulatory Guide 112 in respect of the independence of experts (**RG 112**).

RG 111 provides guidance in relation to the content of independent expert's reports prepared for transactions under Chapters 5, 6 and 6A of the Corporations Act, in relation to a number of transactions including takeover bids, schemes of arrangement and acquisitions approved by unitholders under item 7 of Section 611 and related party transactions amongst others including standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

Irrespective of the transaction being evaluated by the independent expert, ASIC Regulatory Guide 111 provides general guidance that "in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction".

The Takeover Offer is an offer by Challenger Life BidCo to acquire all the units in CDI that it and its associates do not already own via an off-market takeover offer. In determining whether the Takeover Offer is fair and reasonable to Non-Associated Unitholders, we have therefore considered the relevant regulatory guidelines in respect of takeover offers.

Section 640 of the Corporations Act 2001 (Cth) requires an independent expert's report in connection with a takeover offer where the bidder's voting power in the target exceeds 30% or there are common directors. This section requires the report to state whether, in the expert's opinion, the takeover offer is fair and reasonable.

2.2.2 Nature of opinion

RG 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in an entity that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of securities using item 7 of Section 611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the units subject to the takeover offer. The comparison must be made assuming 100% ownership of the target (i.e. including a control premium)
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, that the expert believes that there are sufficient reasons for unitholders to accept the takeover offer, in the absence of any higher bids before the close of the offer.

To assess whether the Takeover Offer is fair and reasonable to Non-Associated Unitholders, we have adopted the tests of whether the Takeover Offer is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Accordingly, we have assessed whether the Takeover Offer is fair by estimating the fair market value of a CDI unit (assuming 100% control) and comparing that value to the value of the Consideration.

To assess the reasonableness of the Takeover Offer we considered the following significant factors in addition to determining whether the Takeover Offer is fair:

- the current status and future prospects of CDI on a stand-alone basis and the alternatives considered
- the existing unitholding structure of Challenger Life BidCo and its associates, and any other significant unitholding blocks in CDI
- the impact on CDI if the Takeover Offer does not proceed
- the likely market price and liquidity of CDI units in the absence of the Takeover Offer
- any special value or other benefits available to Challenger Life BidCo upon achieving 100% ownership of CDI
- other implications associated with CDI unitholders rejecting the Takeover Offer
- other advantages and disadvantages of the Takeover Offer.

2.2.3 Definition of value

The units in CDI have been valued at fair market value, which we have defined as the amount at which the units would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of CDI has not been premised on the existence of a special purchaser.

2.2.4 Individual circumstances

We have evaluated the Takeover Offer for CDI unitholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

2.2.5 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix A.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (**APESB**).

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (**AUASB**) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

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3 Profile of CDI

3.1 Introduction

Challenger Diversified Property Group is a diversified Australian Real Estate Investment Trust (**AREIT**) with interests in 27[2] office, retail and industrial properties located in Australia and in France. CDI also holds the lease on Sydney's Domain car park and engages in property development activities. As at 31 December 2013, the value of CDI's assets totalled $888 million.

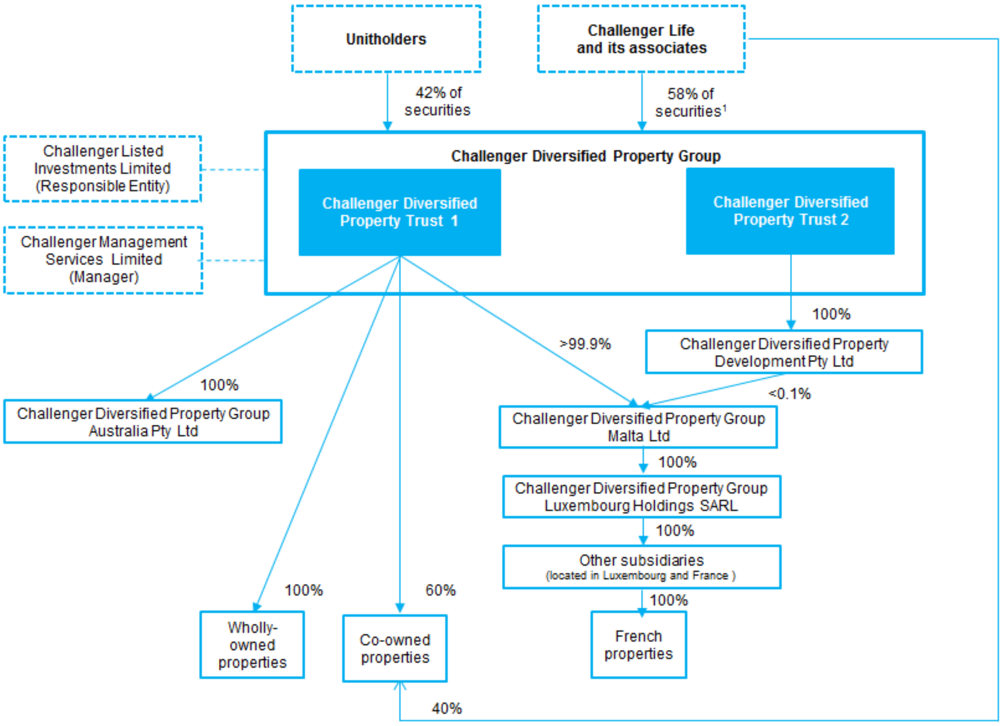
CDI listed on the ASX in October 2006, when it acquired a number of properties from Challenger Life. As part of the Initial Public Offering (**IPO**), CDI acquired 100% of certain industrial distribution centres and 60% of the majority of its existing office and retail properties from Challenger Life. Since the IPO, CDI has acquired:

- four industrial properties and one retail property in France in June 2007
- the remaining 40% of Century City Walk in Victoria from Challenger Life in June 2008
- 31 Queen Street in Victoria in March 2011.

3.2 Organisational Structure

The organisational structure of CDI is set out in the figure below.

Figure 2: Organisational structure



Source: Product Disclosure Statement (**PDS**), CDI management, Deloitte Corporate Finance analysis
Notes:
1. As at 10 April 2014

A brief description of the key entities related to CDI is provided below.

[2] Includes 187 Todd Road, Port Melbourne, the sale of which was announced on 4 April 2014.

- **Challenger Diversified Property Trust 1 & 2**: CDI is constituted of two trusts, Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2 . The units in these trusts have been stapled. CDI 1 holds CDI's 'passive' property assets while CDI 2 undertakes 'active' property transactions (including developments)
- **Challenger Listed Investments Limited**: the Responsible Entity (**RE**) for both trusts. This entity is a wholly owned subsidiary of Challenger. Its key responsibilities in relation to CDI include financial management and administration, governance, investments evaluation and implementation with the benefit of advice from Challenger Management Services Limited (**CMSL or the Manager**), and ASX listing management and compliance
- **Challenger Management Services Limited**: the entity responsible for the management of CDI on behalf of the RE, investor relations and communications, accounting, treasury, legal and tax management services, reporting to unitholders, arranging the initial acquisition of the assets of CDI and the issue of units, and any additional services requested by the RE and agreed by the Manager. This entity is a wholly owned subsidiary of Challenger.

CLIL and Challenger Life entered an agreement (**Co-Owners' Agreement**) governing the properties co-owned by CDI and Challenger Life (**Co-Owned Properties**), which contains a range of obligations including:

- at the time CDI was established, Challenger Life retained a 40% co-ownership interest in Co-Owned Properties which were acquired by CDI as discussed above
- the Co-Owned Properties are jointly managed by CMSL on behalf of CDI and Challenger Life
- Challenger Life has the right to acquire CDI's interest in Co-Owned Properties at fair value, as determined by an independent qualified valuer, if:
  - a change in control of CDI occurs (i.e. if CLIL or a member of the Challenger Group ceases to be the RE of the stapled entities, or if there is a winding up of either of the stapled entities)
  - CDI becomes insolvent or does not comply with its material obligations under the Co-Owners' Agreement.
- if one of the co-owners wishes to dispose of its interest in a Co-Owned Property, it should make in priority an offer to the other co-owner or a member of its group. If the entity does not wish to acquire the interest in the property, the offering co-owner is then allowed to sell it to a third party.

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3.3 Overview of the Properties

CDI's facilities are predominantly located in Australia (93% of the total value of CDI's portfolio at 31 December 2013) and to a lesser extent in France (7% of the total value of CDI's portfolio).
The following table summarises the key statistics of the properties owned by Challenger Diversified Group as at 31 December 2013.

Table 4: Portfolio summary as at 31 December 2013

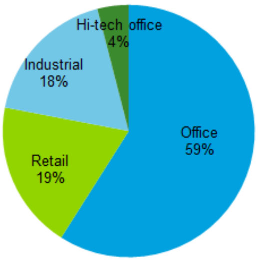
Property	State	Ownership interest (%)	Carrying value. ($m)	Current market cap rate (%)	Occupancy (by income) (%)	Weighted average lease expiry (WALE) (by income) (years)	Acquisition date
Office portfolio							
ABS House	ACT	60	82.0	8.75	100.0	3.2	Oct-06
31 Queen Street	VIC	100	96.2	8.00	85.3	2.8	Mar-11
DIBP Building	ACT	60	71.5	8.25	100.0	5.8	Oct-06
The Forum, Cisco	NSW	60	65.4	8.25	100.0	3.3	Oct-06
Discovery House	ACT	60	60.0	8.00	100.0	8.7	Oct-06
Makerston House	QLD	60	42.5	9.25	85.1	2.5	Oct-06
The Forum, Verizon	NSW	60	41.5	8.75	69.9	2.2	Oct-06
Elder House	SA	60	25.2	9.75	100.0	2.3	Oct-06
Executive Building	TAS	60	19.8	8.50	100.0	1.5	Oct-06
Office portfolio total/average			**504.0**	**8.46**	**93.2**	**3.7**	
Retail portfolio							
Jam Factory	VIC	60	75.3	7.25	100.0	10.4	Oct-06
Century City Walk	VIC	100	32.5	8.25	100.0	5.0	Jun-08
Innaloo Cinema Centre	WA	60	26.4	8.00	100.0	4.7	Oct-06
Kings Langley Shopping Centre	NSW	60	10.8	8.00	100.0	6.1	Oct-06
Retail portfolio total/average			**145.0**	**7.67**	**100.0**	**7.8**	
Industrial portfolio							
The Junction, Stage 2	NSW	100	35.5	7.75	100.0	8.5	Jul-12
The Junction, Stage 1	NSW	100	20.0	8.50	100.0	2.0	Dec-08
6 Foray Street	NSW	100	13.1	10.50	100.0	1.4	Oct-06
Spotlight	VIC	100	17.8	8.25	100.0	7.5	Oct-06
12-30 Toll Drive	VIC	100	14.0	8.75	100.0	2.1	Oct-06
2-10 Toll Drive	VIC	100	5.9	8.50	100.0	4.1	Oct-06
1-9 Toll Drive	VIC	100	3.9	8.50	100.0	2.1	Oct-06
Industrial portfolio total/average			**110.2**	**8.49**	**100.0**	**4.7**	
Hi-tech office							
Taylors House	NSW	60	25.5	9.25	93.7	3.8	Oct-06
187 Todd Road[2]	VIC	60	14.9	9.00	81.8	5.2	Oct-06
Hi-tech office portfolio total/average			**40.4**	**9.16**	**89.3**	**4.3**	
French portfolio							
Sully	-	100	12.6	9.75	100.0	4.0	Jun-07
Aulnay	-	100	16.4	6.95	100.0	1.8	Jun-07
Beziers	-	100	12.7	8.50	100.0	1.7	Jun-07
Genneviliers	-	100	11.4	7.25	100.0	7.2	Jun-07
Tours		100	7.6	8.65	100.0	4.7	Jun-07
French portfolio total/average			**60.7**	**8.12**	**100.0**	**3.7**	
Investment portfolio total/average			**860.2**	**8.34**	**95.4**	**4.6**	
The Junction, Stage 3	NSW	100	6.8	n/a	n/a	n/a	Mar-07

Source: Portfolio summary as at 31 December 2013, Deloitte Corporate Finance analysis
Notes :
1. sqm= square metres; 2. CDI announced on 4 April 2014 the exchange of an unconditional contract of sale for this property

As at 31 December 2013, CDI's property portfolio had a carrying value of $867.0[3] million. Key observations on CDI's portfolio include:

- the majority of the portfolio currently comprises office assets (59% of the portfolio value as at 31 December 2013), with the remainder broadly split between retail and industrial properties as set out below:

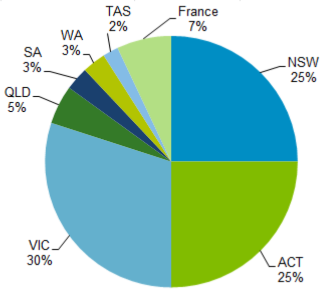
Figure 3: Sector diversification as at 31 December 2013



Source: CDI management

- CDI's properties are spread across all Australian states (as well as the French assets which comprise 7% of total assets) with most of the portfolio located in NSW, ACT and Victoria as set out below:

Figure 4: Geographic diversification (by value) as at 31 December 2013



Source: CDI management

- the tenant exposure is spread relatively evenly amongst listed companies (35%), government (33%) and private companies (29%) with multinationals leasing 3% of the portfolio. A number of properties are leased to a single tenant. The property with the largest single tenant is ABS House which represents 9.5% of the total portfolio value

[3]Includes 187 Todd Road, Port Melbourne, the sale of which was announced on 4 April 2014.

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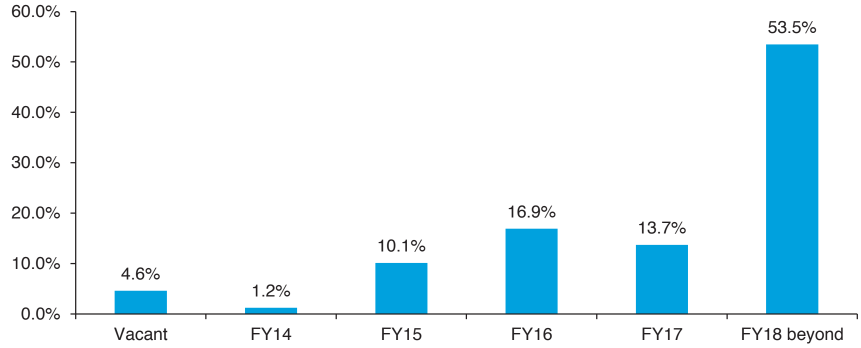
- the weighted average lease term as at 31 December 2013 (excluding options) was approximately 4.6 years across the portfolio. The WALE varies amongst asset classes with office properties having the shortest WALE (3.7 years) compared to the retail assets (7.8 years). The number of leases expiring in each year and the total rent associated with the leases expiring in each year are presented in the figure below:

Figure 5: Lease expiry profile as at 31 December 2013

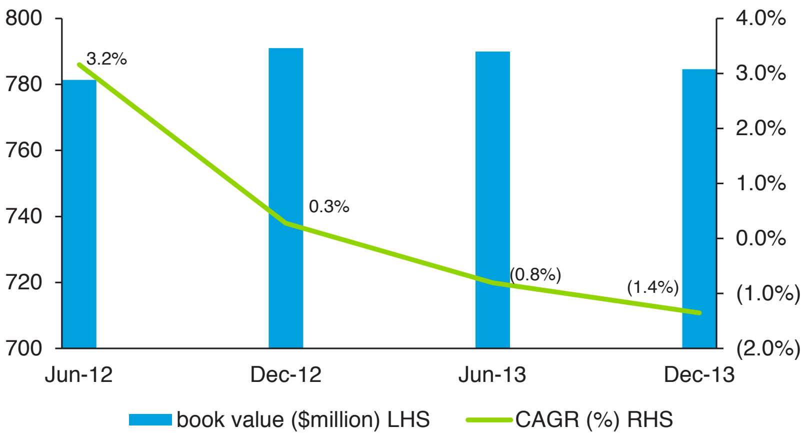


Source: CDI management, Deloitte Corporate Finance analysis

- CDI has a valuation policy which requires an independent valuation of each property every two years (or whenever the Manager believes a material change in value has occurred), and a director valuations in years where no independent valuation is undertaken. In practice, CDI commissions independent valuations of each property at least annually. These valuations are used as the basis for measuring the carrying amount of CDI's interests in these properties

- the value of CDI's current portfolio[4] value has remained relatively stable in the last year as illustrated in the figure below:

Figure 6: Portfolio value (excluding French properties)



Source: CDI management, Deloitte Corporate Finance analysis

- the main development activities pertain to the Junction industrial property in Enfield NSW. Two of the three phases have been complete and the third and final phase is awaiting pre-commitments prior to commencement of development activities. Any development costs will be funding from existing cash reserves and/or debt facilities.

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[4] Excluding 187 Todd Road, Port Melbourne whereby contracts were exchanged in April 2014 and the sale is expected to settle in May 2014.

3.4 Domain car park lease

The Domain car park contains 1,144 car spaces across three levels and is located in close proximity to Sydney's mid-city central business district, Royal Botanic Gardens and Art Gallery of NSW. The car park is one of the largest car parks in Sydney and has benefited from recent refurbishment works including lift installations and upgrades to building safety and security systems.

In May 2008, CDI entered two consecutive lease agreements and a development deed with the BGT in regards to the Domain car park. The initial lease covered the period to the expected redevelopment (ie. four years from 1 May 2008 to 30 April 2012) and the second lease has a term of 21 years (from 1 May 2012 to 30 April 2033). After entering these agreements, CDI committed approximately $12 million to the upgrade works which were completed in 2012. These works were fully debt funded.

CDI appointed InterPark Australia Pty Ltd (**InterPark**) to manage and operate the Domain car park.

In April 2014, BGT released a draft masterplan for the Sydney Botanic Gardens and Domain which includes the design of an art gallery forecourt and the redesign of the Domain car park as well as the addition of potential new amenities such as a railway station, a ferry wharf, a hotel, a permanent sound stage, and several buildings. This plan is in the early stages and has not received any approvals. The impact of the plan on CDI's lease terms with BGT are therefore uncertain, however, BGT would be required to negotiate with CDI for any proposed development on the forecourt given CDI's leasehold interest.

3.5 Management and other fees

The RE and the Manager are both entitled to management fees under CDI's Constitutions and the Management Agreement, respectively. The total base management fee is calculated as 0.5% of the monthly gross assets of CDI per annum, payable in cash and is shared between the RE and the Manager. The Manager is also entitled to receive an equity performance fee as well as an asset management fee in regards to the management of Domain car park, as presented in the figure below.

Table 5: Management fees

Fee type	Entitled entity	Calculation
Base management fee	• RE: 5% of the fee • Manager: 95% of the fee	• 0.5% of the monthly gross assets of CDI per annum, payable in cash
Equity performance fee	• Manager: 100% of the fee	• **Tier 1 fee**: 5% of first 2% outperformance against S&P/ASX 200 Property Trusts Accumulation Index (the Benchmark) multiplied by CDI's average monthly gross asset value • **Tier 2 fee**: 15% of CDI's average monthly gross asset value multiplied by the amount by which CDI's total return exceeds 2% per annum above the Benchmark (only applicable in case of CDI's outperformance of the Benchmark in excess of 2%) • the equity performance fee is capped at 0.25% of gross assets per annum (capped with no carry forward), payable in cash at the end of each financial year • calculation replaces the financial year end closing price with the final 20 day VWAP for both CDI and the constituents of the Benchmark.
Asset management fee	• Manager: 100% of the fee	• 3% of Domain car park operating income

Source: PDS, CDI management, Deloitte Corporate Finance analysis

The Management Agreement may be terminated by either party on 12- months' notice. After September 2016, the agreement may be terminated by the RE on three-months' notice if approved by ordinary resolution of the unitholders. The agreement can be terminated at any time by the Manager if the RE is insolvent. The agreement can also be terminated at any time by the RE in the following instances:

- in the occurrence of a material breach of the agreement by the Manager and in absence of any remediation by the Manager of this breach for 90 days
- in the case the Manager become insolvent
- in the case Challenger Life or its subsidiaries cease to hold at least 50% of the Manager's issued capital.

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3.6 Capital Structure

3.6.1 Equity

The table below lists the 10 largest investors in CDI as at 1 May 2014.

Table 6: Top 10 investors as at 1 May 2014

Unitholders	Units Held	Percentage held
Challenger Life[1]	154,828,367	72.3%
APN Funds Mgt	8,549,098	4.0%
Vinva Investment Mgmt	4,823,953	2.7%
SG Hiscock & Co	3,721,028	1.7%
State Street Global Advisors	2,362,498	1.1%
Norges Bank Investment Mgt	1,956,384	0.9%
Realindex Investments	1,566,918	0.7%
MLC Navigator	1,477,977	0.7%
Phoenix Portfolios	1,373,528	0.6%
Dimensiaonal Fund Advisors	1,251,788	0.6%
Top 10 unitholders	**181,911,539**	**84.9%**
Other unitholders	**32,189,474**	**15.1%**
Total unitholders	**214,101,013**	**100.0%**

Source: Unit register as at 1 May 2014, S&P Capital IQ, Deloitte Corporate Finance analysis
Note:
1. Including Challenger and its related bodies corporate and associates.

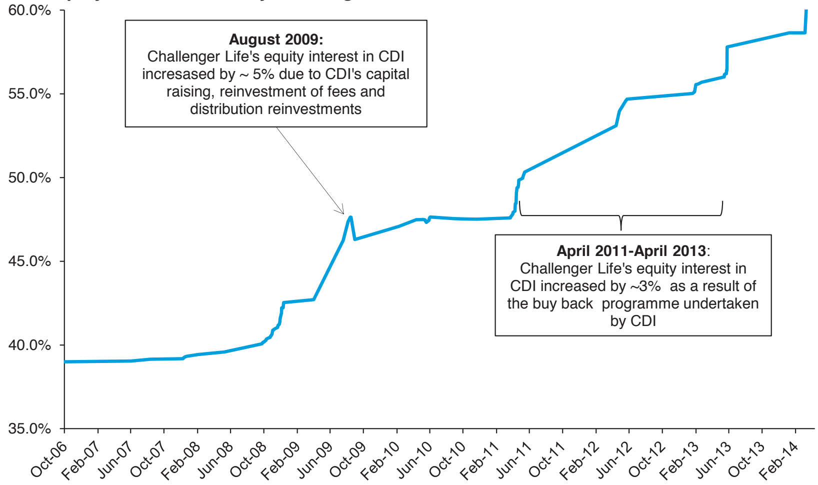
Since the Announcement Date, Challenger and its associates have increased their relevant interests in CDI units to 81.25% as of 6 May 2014.

Between 27 April 2011 and 25 April 2013[5], CDI undertook several daily buy-back operations which resulted in the total number of units on issue declining progressively from 228,356,500 units to 214,101,013 units between these two respective dates.

[5] On 2 April 2012, CDI announced a 12- month extension of its market buy-back programme started on 27 April 2011 and ceased on 11 April 2013.

Challenger Life subscribed to 52.2 million units[6] in CDI (or approximately 39.0% equity interest) at the time of CDI's IPO in 2006 and has progressively increased its interest over time as set out below:

Figure 7: Equity interest owned by Challenger Life BidCo and its associates



Source: CDI management, S&P Capital IQ, Deloitte Corporate Finance analysis

As at the Announcement Date, Challenger and its related bodies corporate and associates held approximately 125.6 million units[7] in CDI (or approximately 58.7% equity interest), which has increased progressively due to the re-investment of distributions and management fees as well as the impact of the buy-back programme.

3.6.2 Unit price performance

A summary of CDI's unit price performance and volumes traded is provided below.

Table 7: CDI's quarterly unit price information

Quarter end	Low[1] ($)	High[1] ($)	Last trade[2] ($)	Cumulative volume[3] (million)	Cumulative volume (% of units outstanding[3])
31 March 2012	1.94	2.14	2.14	7.2	3.3%
30 June 2012	2.10	2.30	2.20	19.6	9.1%
30 September 2012	2.18	2.43	2.29	14.3	6.7%
31 December 2012	2.28	2.57	2.49	12.3	5.8%
31-March 2013	2.46	2.70	2.70	11.1	5.2%
30 June 2013	2.40	2.80	2.42	11.6	5.4%
30 September 2013	2.30	2.59	2.50	8.4	3.9%
31 December 2013	2.43	2.66	2.50	15.0	7.0%
31 March 2014	2.48	2.62	2.57	9.9	4.6%

Source: S&P Capital IQ, Deloitte Corporate Finance analysis
Notes:
1. Lowest and highest unit price values during the corresponding quarter.
2. Closing unit price as at the last day of the corresponding quarter.
3. As at each quarter end.

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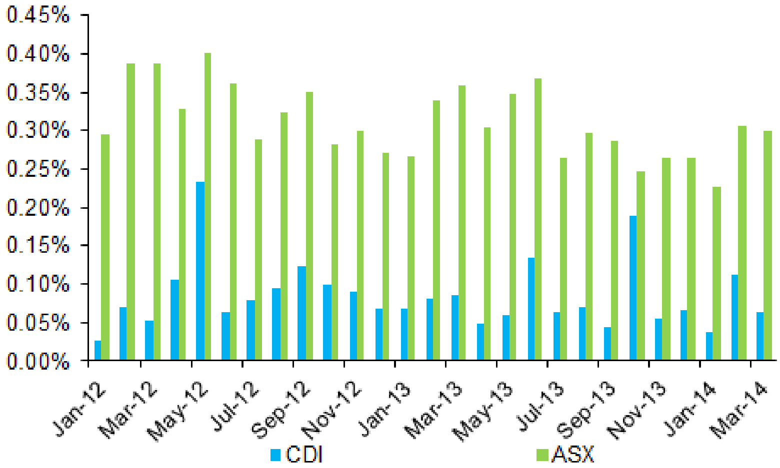
[6] Based on management information. This figure has been restated to reflect the one-for-four unit consolidation.

[7] Based on CDI unit register as at 26 March 2014.

Over the past two years, less than 10% of CDI's outstanding units were traded quarterly. The average daily turnover of CDI and all units listed on the ASX as a percentage of market capitalisation in each month since January 2012 are set out in the figure below.

Figure 8: Average daily turnover of CDI and the ASX (monthly)

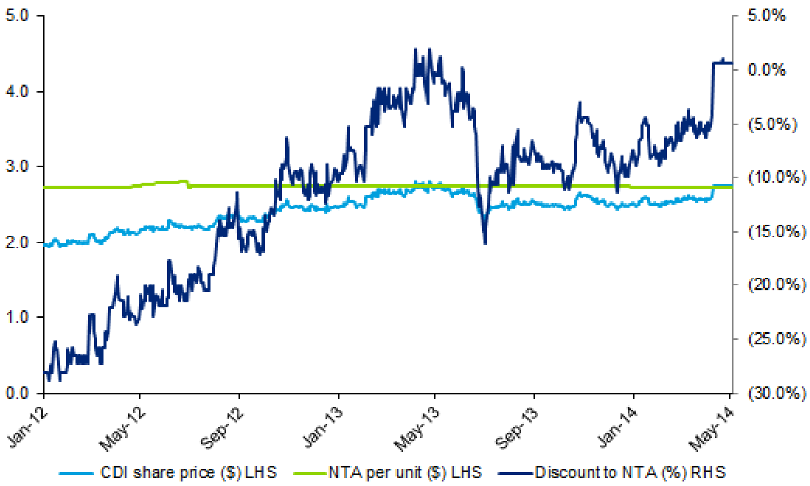


Source: S&P Capital IQ, Deloitte Corporate Finance analysis

As set out above, CDI's average daily turnover (as a percentage of market capitalisation) has been consistently lower than the ASX average over the past two years. This relative illiquidity of CDI units is largely driven by the lack of free float due to Challenger Life's interest as well as other large institutional investor representation on the CDI register that do not trade in CDI units actively.

The unit price, NTA movements and NTA per unit for the last two years are presented in the figure below.

Figure 9: CDI's unit price and NTA movements



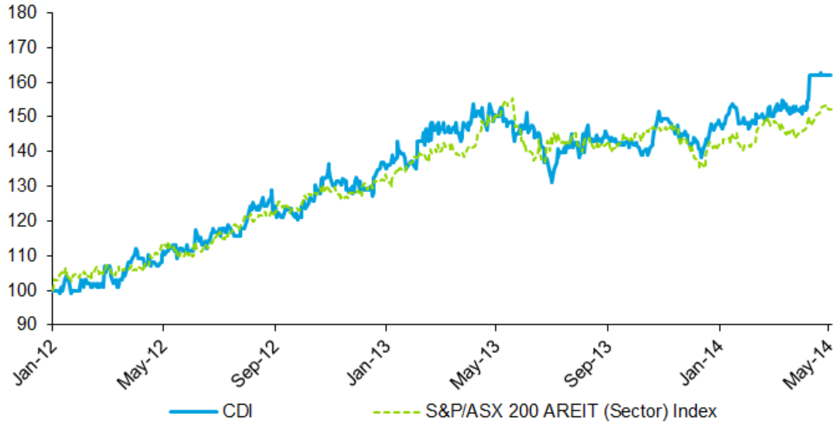
Source: CDI management, S&P Capital IQ, Deloitte Corporate Finance analysis

As set out above:

- CDI's unit price has been relatively stable over the above period
- since January 2012, CDI has generally traded at a discount to NTA with the average discount being 6% over this period

- CDI has generally performed in line with the broader Standard and Poor's (S&P) ASX 200 Property Trusts Accumulation Index in the last two years. More recently, CDI has performed slightly better than this index as set out below. This could be due to a range of factors including the yield profile of CDI and diversity in asset classes held (some of which have been exposed to a cyclical recovery more recently).

Figure 10: CDI's relative performance (adjusted for right issues and distributions)



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

3.6.3 Debt

CDI has a target gearing ratio[9] ranging from 25% to 35%. As at 31 December 2013, CDI had a gearing ratio of 29%.

In June 2013, CDI refinanced its $300 million multi-option syndicated finance facility with Westpac Banking Corporation Limited and Commonwealth Bank of Australia. This enabled CDI to expand its weighted average debt maturity from 1 year to 3.2 years and to reduce the weighted average cost of debt. As at 31 December 2013, CDI had a weighted average term to debt maturity of 2.7 years, a weighted average cost of debt of 5.0% and the drawn debt amounted to $257.1 million[8].

CDI 1's debt facility is comprised of two components: a secured component in relation to the funding of property investments in France and an unsecured component subject to a number of negative undertakings, totalling $59.3 million[10] and $197.8 million[10] respectively as at 31 December 2013.

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[9] The gearing ratio is calculated as total debt divided by total gross assets.

[10] These amounts include drawn debt less unamortised establishment costs amounting to $1.2 million as at 31 December 2013.

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The different tranches forming part of CDI 1's debt facility are set out in the table below.

Table 8: CDI's debt facilities

Debt tranche	Facility limit ($'000)	Undrawn debt ($'000)	Drawn debt ($'000)	Debt Margin[3] (%)	Maturity date
Tranche A	110,000	-	110,000	BBSW+145bps	31-Jul-16
Tranche B	100,000	40,695	59,305	Euribor or BBSW (+165 bps)	31-Jul-17
Tranche C	90,000	-	90,000	BBSW+140 bps	31-Oct-15
Total	**300,000**[1]	**40,695**	**259,305**[2]		

Source: CDI management

Notes:

1. This amount includes a bank guarantee of $1.0 million as at 31 December 2013 required under the terms and conditions of the lease agreement with Botanical Gardens Trust dated 1 May 2008.
2. This amount includes the bank guarantee and the unamortised debt establishment costs of $1.2 million as at 31 December 2013.
3. Interest on loans denominated in Australian dollars ($198.9 million as at 31 December 2013 excluding the bank guarantee of $1.0 million) is calculated based on the bank bill swap rate (**BBSW**) plus a margin. Interest on loans denominated in Euro (€38.5million or $59.3 million as at 31 December 2013) is calculated based on the Euribor plus a margin.

CDI2 and Challenger Diversified Property Development Pty Limited are guarantors of CDI 1's debt facility. The covenants of the debt facility require CDI's gearing ratio to be less than 50% and the interest cover ratio to be greater than 2 times. These two conditions have been complied with in recent reported years.

Other relevant terms of the facilities include:

- if CDI is delisted, this represents an event of default for the current facilities
- a review event will occur in the event of a change of control of CDI.

Other internal capital management policies include:

- **interest rate risk**: interest hedging on a minimum of 60% of the expected borrowings. As at 31 December 2013, CDI had interest swap rate contracts hedging 76% of its expected debt balance
- **foreign currency risk**: CDI to maintain a natural capital hedge against a minimum of 100% of the total value of its foreign currency denominated assets. In order to minimise its exposure to the fluctuations in the exchange rate between the Australian dollar and the euro, CDI borrows in foreign currency. As at 31 December 2013, CDI maintained a capital hedge of 98%.

3.7 Financial performance

The audited income statements for CDI for FY11[11] , FY12, FY13 and the reviewed income statement for the six months ended 31 December 2013 are summarised in the table below.

Table 9: Financial performance

$'000	June 2011 Audited (12 months)	June 2012 Audited (12 months)	June 2013 Audited (12 months)	December 2013 Reviewed (6 months)
Property income (net)	**61,918**	**65,959**	**67,166**	**32,980**
Income from operating business activities[1] (net)	**1,304**	**754**	**(1,303)**	**(636)**
Interest income	396	497	136	38
Responsible Entity's and Manager's fees comprising:	(6,268)	(4,395)	(5,958)	(2,250)
Base RE fees	*(204)*	*(218)*	*(222)*	*n/a*
Management fees	*(3,874)*	*(4,138)*	*(4,213)*	*n/a*
Performance fees	*(2,190)*	*(39)*	*(1,523)*	*n/a*
Operating expenses	(2,224)	(2,067)	(649)	(623)
Trust expenses	**(8,492)**	**(6,462)**	**(6,607)**	**(2,873)**
Finance costs	(8,612)	(13,313)	(14,312)	(6,630)
Fair value movements[2]	3,441	(11,506)	(5,898)	(7,864)
Foreign exchange loss	(173)	(374)	(146)	9
Net gain/ (loss) on development property	2,501	-	-	-
Net profit/ (loss) before tax	**52,283**	**35,555**	**39,036**	**15,024**
Income tax credit	(795)	596	288	148
Net profit/ (loss) after tax	**51,488**	**36,151**	**39,324**	**15,172**
Normalisation adjustments[3]	(7,135)	8,630	5,191	8,697
Normalised earnings	**44,353**	**44,781**	**44,515**	**23,869**
Distributions payable to unitholders	**36,390**	**36,580**	**38,110**	**19,697**
Normalised earnings per unit (cents)[4]	19.4	20.2	20.8	11.1
Distribution per unit (cents)[5]	16.0	16.8	17.8	9.2
Distribution yield[6]	7.3%	7.7%	6.6%	7.3%
Payout ratio[7]	81.9%	80.8%	85.6%	82.5%

Source: CDI, Deloitte Corporate Finance analysis

Notes:

1. Income and expenses relating to the operations of the Domain car park.
2. Fair value movements on properties and derivatives held and disposed.
3. Includes non-recurring items such as straight lining of rental income, fixed assets deprecation, fair value movements, foreign exchange gains and losses, income tax credit and net gain on development property.
4. Based on the number of outstanding units as at 30 June 2011,2012, 2013 and 31 December 2013.
5. CDI completed a one-for-four unit consolidation in August 2012. Distribution per unit for FY11 and FY12 have been restated to take into account this consolidation.
6. Based on CDI closing unit price as at 30 June 2011,2012, 2013 and 31 December 2013.
7. Based on normalised earnings and CDI outstanding shares as at 30 June 2011,2012, 2013 and 31 December 2013.

[11] FYxx stands for financial year ended at 30 June 20xx.

We note the following in relation to CDI's financial performance:

- generally speaking, as a largely passive vehicle, CDI's revenue and expenses are not exposed to any significant volatility, other than due to rent reviews and fair value adjustments. Rental income increased by 7.4% between FY11 and FY13 largely due to rental reviews and portfolio management activities
- income from operating business activities is generated from the Domain Car Park Lease. The net income has decreased since FY11 due to the expenses attributable to this lease having increased over the period due to a significant upgrade completed in FY12 as well as an increase in lease payments to BGT
- net profit after tax (**NPAT**) decreased by 23.6% between FY11 and FY13 mainly due to the negative impact of the fair value adjustments to derivatives in FY12 and to investment properties in FY13. When adjusted for non-recurring items, normalised earnings have remained relatively stable between FY11 and FY13. When combined with the impact of the buyback program this resulted in an increase in normalised earnings per unit of 7.0% between FY11 and FY13
- distributable income is calculated as profit from operating activities (normalised earnings) adjusted for non-cash expenses, incurred and expected leasing costs, debt establishment fees and life-cycle capital expenditure. Distributions are made on a half yearly basis and are paid in February and August each year
- distributions and the payout ratio have been relatively stable as set out above. In December 2013 CDI announced a distribution of 9.2 cents per unit on 28 February 2014 in relation to the net result generated for the six months to 31 December 2013 and re-iterated full year distribution guidance of 18.5 cents which implies distributions per unit of 9.3 cents for the second half of FY14
- Other considerations in respect of the above:
  - trust expenses decreased by 22.2% between FY11 and FY13 as a result of a decline in performance fees and operating expenses
  - finance costs increased by 66.2% between FY11 and FY13 which was mainly driven by the increase in debt to fund the unit buy back program and the development expenditure in respect of the Jam Factory, the Domain car park and the Junction Stage 2
  - investment properties and derivatives are revalued at each reporting date and any gain or loss arising from a change in fair value is recognised in the income statement. There have been negative fair value adjustments in two of the past three years
  - net gain on development property in FY11 related to the net proceeds from the claim on the developer guarantor in respect of the property at 13 Cooper Street Smithfield where the developer failed to meet their obligations under the agreed development terms
  - CDI benefited from a tax credit in FY12 and FY13 due to a deferred income tax credit offsetting the tax expense due in each of these years.

3.8 Financial position

The audited statement of financial position for CDI as at 30 June 2011, 30 June 2012, 30 June 2013 and the reviewed statement of financial position as at 31 December 2013 are summarised in the table below.

Table 10: Financial position

$'000	June 2011 Audited (12 months)	June 2012 Audited (12 months)	June 2013 Audited (12 months)	December 2013 Reviewed (6 months)
Cash and cash equivalents	2,716	2,923	6,553	3,842
Trade and other receivables	4,354	990	1,308	1,668
Derivative financial instruments	988	27	203	179
Other financial assets	-	2,537	97	-
Other assets	846	1,732	906	1,638
Investment properties held for sale	13,200	-	-	-
Total current assets	**22,104**	**8,209**	**9,067**	**7,327**
Other financial assets	3,062	69	-	108
Derivative financial instruments	738	314	-	-
Property, plant and equipment	2,895	12,186	12,148	11,880
Investment properties under development	18,500	6,800	6,800	6,800
Investment properties	828,792	851,964	858,900	860,219
Deferred tax assets	210	836	1,252	1,412
Total non-current assets	**854,197**	**872,169**	**879,100**	**880,419**
Total assets	**876,301**	**880,378**	**888,167**	**887,746**
Trade and other payables	17,970	20,805	16,433	18,274
Provision for distribution	18,121	18,461	19,697	19,697
Income tax payable	48	70	191	107
Derivative financial instruments	1,087	2,739	3,522	3,419
Interest bearing liabilities	140,834	-	-	-
Total current liabilities	**178,060**	**42,075**	**39,843**	**41,497**
Trade and other payables	-	-	1,508	2,142
Derivative financial instruments	914	7,958	5,623	4,591
Interest bearing liabilities	85,747	243,681	254,287	257,083
Total non- current liabilities	**86,661**	**251,639**	**261,418**	**263,816**
Total liabilities	**264,721**	**293,714**	**301,261**	**305,313**
Net assets	**611,580**	**586,664**	**586,906**	**582,433**

Source: CDI, Deloitte Corporate Finance analysis

We note the following in relation to CDI's financial position:

- investment properties increased over the review period as a result of new acquisitions, redevelopment, maintenance and other capital expenditure, and movements in the fair value of these assets
- investment properties under development decreased between FY11 and FY12 as a result of the practical completion of the development of the Junction Stage 2 in July 2012. The asset was re-classified as investment property as at 30 June 2012
- interest bearing liabilities relate to a multi-option syndicated finance facility (see section 2.6.3 above for more information)
- other financial liabilities relate to hedging arrangements which swap the floating interest rate for a fixed interest rate for a minimum of 60% of expected borrowings. The interest rate swaps settle on a quarterly basis
- property, plant and equipment relates to the capital expenditure for the upgrade works in the Domain car park which were practically completed in July 2012

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- in regards to the working capital, we note the following:
  - trade and other receivables were high in FY11 as they included $2.8 million in litigation proceeds receivable relating to 13 Cooper Street Smithfield
  - trade and other payables include mainly trade creditors and accruals, capital expenditure accruals, interest payable on the debt facility, rent straight lining and management fees
- other assets predominantly consist of derivative financial instruments, cash on deposit and other non-current prepayments.

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3.9 Outlook

3.9.1 AREIT observations

General observations on the AREIT sector applicable to CDI include:

- the AREIT sector has generally outperformed the broader market over the 2014 calendar year driven in part by strong half year results with limited negative surprises coupled with corporate activity in the sector including the CFS and Westfield property platforms, Australand and Investa Office Fund as well as an increasing number of IPOs in the sector including mid-cap industrial and office portfolios
- after a sustained period of restructuring and portfolio repositioning, companies in the sector are increasingly looking for value creation through consolidation and other growth initiatives
- however, rising bond yields are a risk for property globally and further currency appreciation may continue to limit interest from off-shore investors.

3.9.2 Asset class observations

In respect of CDI's principal asset classes:

- *General considerations:*
    - recent corporate activity coupled with elevated levels of pending transactions and stabilising fundamentals as well as institutional investor appetite across most asset classes (particularly for prime-grade assets) may facilitate capitalisation rate compression over the next 12 months. Office property has the greatest leverage, particularly for prime grade stock
    - more challenging leasing markets in a number of market segments due to increased supply and reduced demand (ie. manufacturing)
    - if low interest rates persist, transaction activity is likely to retain the existing momentum due to the positive spread between borrowing costs and capitalisation rates.
    - the demand for office, retail and industrial properties is largely determined by general economic cycles in Australia, as business expansion traditionally coincides with strong market growth.
- *Office (Australia):*
    - after a sustained period of deteriorating rental fundamentals, demand for office space has generally stabilised, although at lower levels. Whilst this may not mean a significant recovery in market rentals and/or income growth for the asset class, a more stable environment could lead to capitalisation rate compression. In the short term, rents are likely to remain under downward pressure while supply will continue to increase at moderate levels (6.3% increase in supply forecast in the next 2 years according to Morgan Stanley)
    - underlying demand conditions in commercial asset classes appear to be stabilising, albeit at low levels. Whilst national demand has softened in total, the more mature markets of Sydney and Melbourne appear to be past their respective troughs in demand.
- *Industrial (Australia):*
    - industrial demand has been relatively stable, and rental growth has been more resilient than in Office and Retail. However, any rental growth is anticipated to be weighted towards modern facilities in superior locations, rather than older properties in secondary locations
    - demand for industrial properties is likely to remain inconsistent. Melbourne is forecast to continue to dominate in terms of leasing and development in the industrial market and may be favourably impacted by the current expansion of Port of Melbourne in particular.
- *Retail (Australia):*
    - demand for retail assets remains strong but quality assets are relatively tightly held.
    - in regards to retail properties, landlords are expected continue to focus on maintaining high occupancy, despite compressed retailer margins and increased occupancy costs.

- *French properties (Industrial and retail assets):*
    - in France the retail and industrial sectors are likely to continue to be impacted by stagnant household purchasing power levels, rising unemployment and gloomy macro-economic outlook. In particular, the investment market for retail assets is partially paralysed as demand focuses on secure assets; there is therefore a threat of shortage of 'sellable' assets.

3.9.3 CDI perspectives

CDI has implemented a portfolio enhancement strategy which is presented in the figure below.

Figure 11: CDI's portfolio strategy

Office	• Maximise exposure to efficient leasing markets • Continue upgrades and refurbishment • Diversify tenant exposure
Retail	• Continue to enhance the Jam Factory – Village Cinema refurbishment • Activate development potential at Innaloo Cinema Centre
Industrial	• Secure lease pre-commitment for the Junction, Stage 3 • Continue master planning for Foray Street and Toll Drive
Non core	• Hi-tech office – short to medium term exit • France – medium term, staged exit to maximise unitholder value

Source: CDI management

In recent months, CDI has continued to upgrade and refurbish its office properties in order to ensure tenant retention and facilitate releasing.

As part of the strategy for its retail portfolio, CDI engaged in redevelopment and tenancy refurbishments. In particular, CDI started an upgrade of the cinema offering at the Jam Factory in Melbourne in order to re-position the premises as a prime cinema destination in the city. This upgrade is expected to be completed by the end of 2014. In Perth, CDI is currently investigating the development of a retail area in the Innaloo Cinema Centre and has engaged in prospective discussions with a prospective tenant for the rental of the new retail premises. Century City Walk (Village Cinema) is also being refurbished and upgraded.

In relation to its industrial portfolio, CDI has been aiming at securing lease pre-commitments, maximising the development potential upon lease expiries and proceeding with the master planning for certain properties.

CDI intends to divest its non-core assets, with the objective of maximising the value on disposal of its hi-tech offices and French properties as part of its medium term strategy and to recycle the capital generated from these sales into other "value add" assets. On 4 April 2014, CDI announced the sale of 187 Todd Road, Port Melbourne.

4 Valuation of CDI

4.1 Introduction

In order to assess the fairness of the Takeover Offer, we have compared our estimate of the fair market value of a unit in CDI on a control basis to the value of the Consideration.

For the purpose of our opinion fair market value is defined as the amount at which a unit in CDI would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

4.2 Fair market value of a unit in CDI

In estimating the fair market value of a unit in CDI we have applied the net assets on a going concern basis which is the most common approach utilised when valuing REITs such as CDI which are largely passive. In doing so, we have determined the current fair market value of the underlying net assets of CDI by aggregating the current fair market value of the Properties as well as any other assets and liabilities net of an estimate of the ongoing costs to a potential acquirer of a controlling interest in CDI.

We have used the balance sheet of CDI as at 31 December 2013 and made adjustments to reflect changes to the value of CDI's assets and liabilities between 31 December 2013 and 28 May 2014.

We have estimated the fair market value of an CDI unit to be in the range of $2.69 to $2.73 as set out in the table below.

Table 11: Fair market value of CDI unit

	Section	Unit	Low value	High value
Net assets of CDI as at 31 December 2013		**$ million**	**582.4**	**582.4**
Fair market value adjustments				
Movement in value of investment assets	4.2.1	$ million	1.0	2.0
Movement in marked to market of derivative instruments	4.2.4	$ million	0.0	0.0
Undistributed income	4.2.3	$ million	15.8	18.0
Ongoing costs	4.2.2	$ million	(23.5)	(17.6)
Fair market value		**$ million**	**575.7**	**584.8**
Number of CDI units on issue		million	214.1	214.1
Fair market value per CDI unit		**$ / unit**	**2.69**	**2.73**

Source: Deloitte Corporate Finance analysis

The value attributed to CDI's property investments is based on estimates of the full underlying value of each property in the portfolio. The underlying valuations of CDI's property investments represent a "control" value (i.e. assume 100% ownership of the assets and the value of assets in which less than 100% is owned has been based on a pro-rata of the value derived assuming 100% ownership). It is therefore not appropriate to add any additional "premium for control", although premiums for other reasons may be appropriate.

We address each of the fair market value adjustments made below.

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4.2.1 Fair market value of the investments

Approach and summary

CDI's practice is to have independent valuers assess the value of all its property investments at least once per annum (or every 6 months in the case of the French assets). Therefore in any given six month period approximately half the portfolio is valued by external independent valuers and the balance of the investment properties (and the Domain Car Lease) valued by the Directors. In the event that the directors valuation of a particular property varies by more than 5% to the most recent independent valuation, CDI commissions an independent valuation for the property. CDI commissioned independent valuations for approximately 53% of the Properties as at 31 December 2013 for financial reporting purposes and lending purposes and the remainder were directors valuation (**31 December 2013 Valuations**).

As part of the normal process undertaken prior to each valuation cycle, in anticipation of 30 June 2014 year end, CDI has undertaken a preliminary analysis of the expected fair value of the Properties as at 30 June 2014 having regard to current market factors (such as capitalisation rates, investor appetite, etc) through internal analysis and discussions with property valuers as well as updated analysis of income expectations for each property based on the property specific factors such as occupancy, leasing expectations, capital expenditure, etc (**Updated Valuations**). The Updated Valuations do not indicate a material change to the NTA for CDI compared to the 31 December 2013 Valuations.

For the purposes of this report, we have relied on the valuations undertaken by the Directors and the Independent Valuers and have not undertaken any separate valuations of the underlying Properties.

We have undertaken an analysis of the 31 December 2013 Valuations of the Properties and the Updated Valuations and note that:

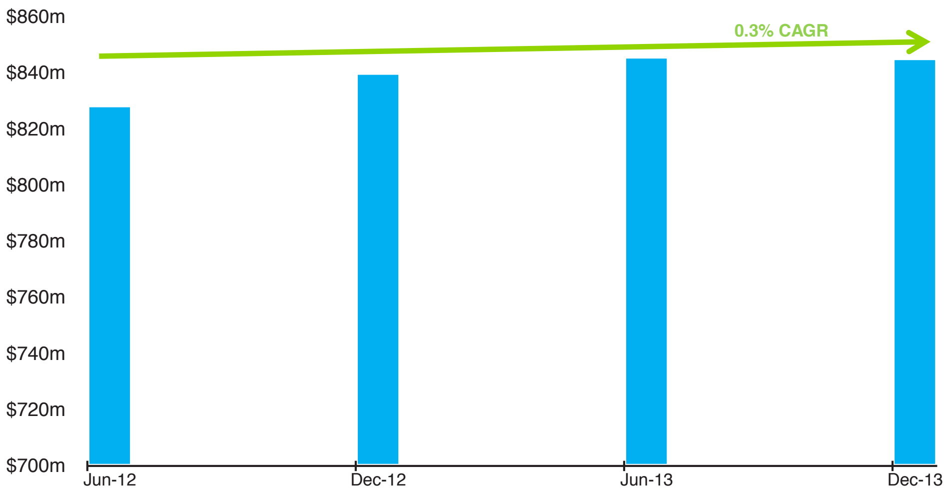
- the external property valuers are independent of CDI and based upon the letter of instructions provided and statements included in the valuation reports there were no restrictions on their scope
- the independent valuations and the directors valuations were prepared by professionals who have sufficient qualifications and competence to provide an informed opinion of the fair market value of assets of this nature
- the valuation methods used are not inappropriate and appear to have been correctly applied to estimate the fair market values of the Properties. This includes an allowance for selling costs but no other costs which would be incurred on the sale of the Properties such as capital gains tax, etc
- the valuations assume that each of the Properties are sold individually and have not considered any valuation consequence to the extent that the Properties were sold as a portfolio
- the valuations have been prepared in accordance with the requirements of the valuation standards
- for investments owned in conjunction with Challenger Life, the valuations are prepared jointly for both CDI and Challenger Life based on each entity's pro-rata share in the value of the property.

We have also considered the following factors in order to assess the current fair market value of the Properties:

- our analysis of the Updated Valuations, available transaction data, discussions with the independent valuers and anecdotal evidence of the property markets across Australia. In particular,
  - general compression of capitalisation rates across most asset classes and regions has been partially or fully offset by more challenging leasing markets (particularly for office assets) due to near term supply responses which has resulted in pressure on incentives and occupancy
  - property specific factors, including near term lease expiries for Elder House and ABS House have been explicitly analysed as the re-leasing risks (and incentive costs) for these properties has become more proximate. This is expected to result in a net decline in the value of these assets. These declines in value are expected to be offset by:
    - a net positive uplift across the remainder of the portfolio, due largely to capitalisation rate compression as well as the completion of a development project at Century City Walk and a more certain releasing profile for 31 Queen Street
    - amendment to the valuation approach for the Junction Industrial Estate at Enfield NSW which relates to three properties held on a single title. Previously this site had been valued as three separate properties, however, due to the increased investor appetite for larger industrial estates, it was seen to be more prudent to value this as a single site which is expected to result in a modest increase to the value of this property.

- the sale of Todd Road and other advanced negotiations in respect of sales for assets within CDI's portfolio since 31 December 2013 which indicate transactions occurring in line with the carrying value of the Properties
- the general stability of the portfolio, including long-term relationships with tenants who have demonstrated a propensity to exercise options to extend lease terms. As a consequence of this and the nature of the assets, there has been low volatility in property values over the past two years. In particular, the value of the Properties has been stable since 2012 with only slight fluctuations in any 6 month period (less than 2%) as set out below:

Figure 12: CDI's portfolio value



Source: CDI annual reports, Deloitte Corporate Finance analysis

Note: Value of Properties exclude 187 Todd Road, Port Melbourne which was sold and expected to settle in early May 2014

Based on the above factors, including the Updated Valuations, we have increased the value of the properties by $1 million to $2 million relative to the carrying value at 31 December 2013 which represents an increase of approximately 0.2%.

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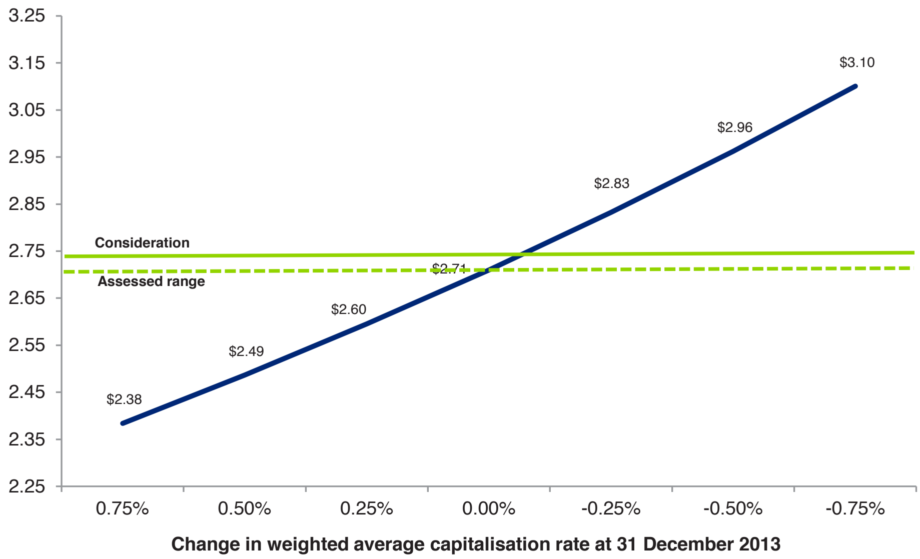
Sensitivity analysis

As the fair market value of the Properties represents the core driver of value for CDI, our valuation of a CDI unit is sensitive to relatively small movements in the underlying value of the Properties.

The figure below sets out an indicative sensitivity analysis on the change in value of a unit in CDI on a going concern basis based on movements in the implied capitalisation rate of the underlying property valuations.

Figure 13: Sensitivity analysis



Source: Deloitte Corporate Finance analysis

Based on the above figure, it can be seen that a +/- 25 bps movement in the implied capitalisation rate of the underlying property valuations would have an approximate +/- 10 cents per unit impact on the value of a CDI unit.

4.2.2 Overhead costs

Whilst property management fees are included in the property cash flows used by the directors and independent valuers in their valuations of the Properties, ongoing responsible entity, management fees and other trust expenses are not otherwise factored into the property valuations or in the financial position of CDI. These costs equate to approximately $6 million annually as follows:

- management fees of 50 bps paid to CLIL and CMSL which equates to $4.3 million based on the value of the investment properties as at 31 December 2013
- approximately $1.5 million in other costs incurred by CDI in respect of professional services (legal, accounting, audit, taxation and valuation), director fees, share registry and other costs.

These costs are not factored into the net asset value of CDI.

Responsible entity and management fees would be incurred to the extent CDI is externally managed. If CDI were internally managed, incremental costs would be incurred in order to procure similar functions and services for CDI as long as CDI and its investments are managed on a going concern basis. It is likely that these costs incurred would be less than the existing management fee payments as the manager would typically earn a profit margin on the fees paid by the trust.

Our estimate of the fair market value of CDI has been premised on the basis of full underlying value, that is, the value that could be realised through a takeover of CDI.

A potential acquirer of CDI would likely expect to realise cost savings from managing CDI since investment property management is a highly scalable business model where a large portion of the cost structure tends to be relatively fixed. A third party buyer considering purchasing CDI would therefore likely expect to be able to achieve economies of scale in managing the portfolio and therefore factor in only a portion of these costs when assessing the purchase price to acquire CDI.

For the purposes of assessing the fair market value of CDI, we have assumed ongoing overhead costs of $1.5 million to $2.0 million. In selecting this range, we have considered the following:

- the current annualised costs of CDI in an externally managed structure of approximately $6 million
- the current annualised costs of CDI in an internally managed structure of approximately $4.0 million
- the relatively diverse nature of CDI's portfolio which requires a range of expertise and services across various geographies and asset classes which may not be easily replicated by a potential acquirer
- the level of synergies which are likely to be available to a potential acquirer and the risks and potential costs of removing the existing manager of CDI.

Based on the above range of costs, this implies cost savings in the order of 60% to 75% relative to the existing direct costs and management fee costs incurred by CDI which results in a relatively conservative level (ie. low) of ongoing costs assumed in our analysis.

We have capitalised these costs using the weighted average capitalisation rate for CDI's portfolio as we consider the risk and growth prospects of these costs to be similar to those of the underlying property assets. This results in a capitalised value of these costs in the range of $17.6 million to $23.5 million.

4.2.3 Undistributed earnings

The net assets of CDI as at 31 December 2013 do not include the net cash flows expected to be generated between 31 December 2013 and the closing date of the Takeover Offer (28 May 2014). We have therefore included the expected cash earnings to be generated by CDI until the expected closing date of the Takeover Offer as set out below:

Table 12: Expected cash flows

		Low	High
Net undistributed cash earnings from operating activities	$ million	19.0	19.0
Performance Fees	$ million	(2.2)	-
Transaction costs	$ million	(1.0)	(1.0)
Expected cash flows up until end of the Offer Period	**$ million**	**15.8**	**18.0**

Source: Deloitte Corporate Finance analysis

We note the following in respect of the above:

- cash flows from operating activities represents rent and operating expenses up to 28 May 2014 net of withholding taxes and investing activities and excluding maintenance capex and tenant incentives
- CLIL is eligible to earn a performance fee of up to 25 bps of total assets based on the performance of the fund relative to the Index up until 30 June 2014. Based on our assessed value and the recent performance of the Index there appears to be a reasonable likelihood that CLIL may be eligible for some or all of the performance fee. However, as this will remain subject to the performance of the Index up until 30 June 2014, we have presented this as a range between the maximum amount and nil
- transaction costs represent the costs expected to be incurred from 31 December 2013 until the end of the Offer Period excluding any costs which are contingent upon the success of the Takeover Offer.

4.2.4 Movement in the fair market value of financial instruments

CDI has entered into a number of interest rate swaps designed to hedge against fluctuations in income caused by movements in interest rates. We have adjusted the net asset position for the movement in the marked-to-market value of these instruments between 31 December 2013 and 30 April 2014 of $0.03 million and is not material for the purpose of our assessment.

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4.3 Cross checks

4.3.1 Introduction

We considered valuation parameters observed from publicly available market data to derive a cross-check to our valuation of CDI under the net assets approach. In particular, we have considered:

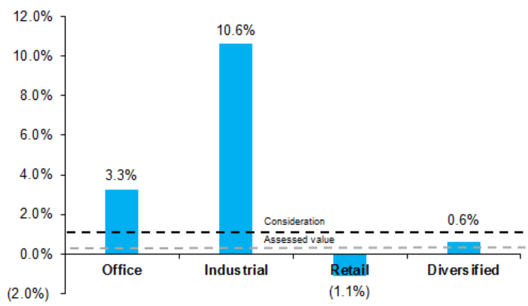
- premiums/(discounts) to NTA and distribution yields observed in listed units, as well as earnings and asset based multiples implied by transactions comparable to the Takeover Offer
- recent trading in CDI units.

Each of these is discussed in further detail below.

4.3.2 Market evidence

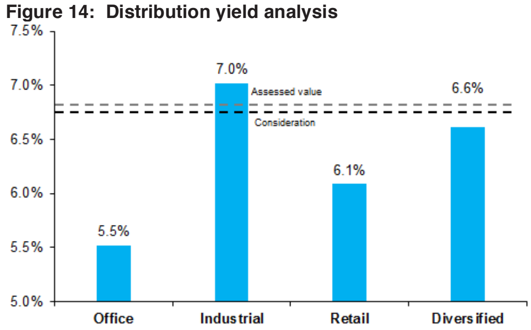
We have considered market evidence observable in respect of the trading and transactions in the AREIT sector. The premiums/discounts to NTA and current distribution yields observed across the AREIT sector as set out below:

Figure 14: Premiums/ (discounts) to NTA



Source: S&P Capital IQ, Deloitte Corporate Finance analysis
Notes:
1. CDI analysis based on NTA of $2.71 and Consideration of $2.74 and assessed value of $2.71 (mid).

Figure 14: Distribution yield analysis



Source: S&P Capital IQ, Deloitte Corporate Finance analysis
Notes:
1. CDI's distribution yield based on the FY14 guidance distribution (18.5 cents for the 12 months to 30 June 2014).

Further details of the above analysis are set out in Appendix C.

As set out above, in general, AREITs, on average are currently trading at around NTA or at a slight premium. However, this varies across asset class and we make the following observations:

- the majority of mid-cap externally managed passive REITs, namely GDI Property, 360 Capital Industrial Fund and Australian Industrial Fund are trading at a slight premium to NTA with the exception of Industrea which is trading at a discount. Growthpoint and 360 Capital Industrial Fund are the exceptions as these vehicles are currently trading at more significant premiums to NTA which is likely driven by near term NTA growth expectations due to recent fund raising activities and stated intentions to further grow their portfolios
- a number of the other AREITs either have active operations, in the form of third party funds management activities or property development, the value of which is not adequately captured within the NTA of these entities, are subject to announced or rumoured corporate activity or both
- the majority of small-cap externally managed passive REITs are trading at a discount to NTA
- the yield observable for CDI relative to the comparable REITs reflects the nature of CDI's property portfolio which would generally be considered to be of secondary quality. In addition, CDI has a large number of properties with single tenants and low WALE's which would contribute to a higher risk profile.

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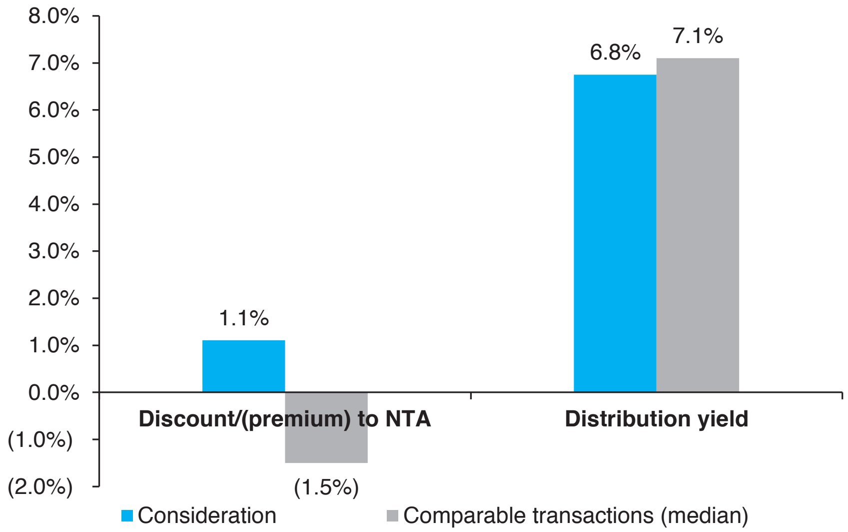
We have also considered the metrics implied in recent transactions in the AREIT sector as set in the figure below and detailed in Appendix D.

Figure 15: Cross-check with recent transactions



Source: S&P Capital IQ, Deloitte Corporate Finance analysis
Note: 1. Distribution yields based on current yields

We make the following observations:

- we have not considered transactions prior to 2008 as these occurred in a vastly different market context and generally involved businesses with large funds management platforms and other active income which are therefore not comparable to CDI
- immediately following 2008, the transaction metrics reflect more challenging market conditions. In particular, a number of AREITs were in a deleveraging phase requiring capital injections and therefore the transaction metrics generally reflect an element of distress which resulted in a number of transactions occurring at significant discounts to NTA
- more recently, transaction evidence has indicated that most transactions are being conducted at or close to NTA reflecting a more favourable near term economic outlook and increased confidence in the underlying valuations.

As set out above the offer price implies a premium of 1.1% to the most recently reported NTA of CDI and a current distribution yield of 6.8%. We consider these metrics to be broadly supportive of our assessed value and the offer price having regard to the following factors:

- CDI is a largely passive property investor with no significant operating businesses
- we are not aware of any near term expectation of material NTA accretion due to revaluations, major developments or other factors
- we would expect a yield attributable to CDI towards the higher end of the range of comparable data due to:
  - CDI's property portfolio would generally be considered to be of secondary quality. In addition, CDI has a large number of properties that have single tenants and low WALE's which would contribute to a higher risk profile
  - CDI has limited active income.

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4.3.3 Analysis of recent CDI trading

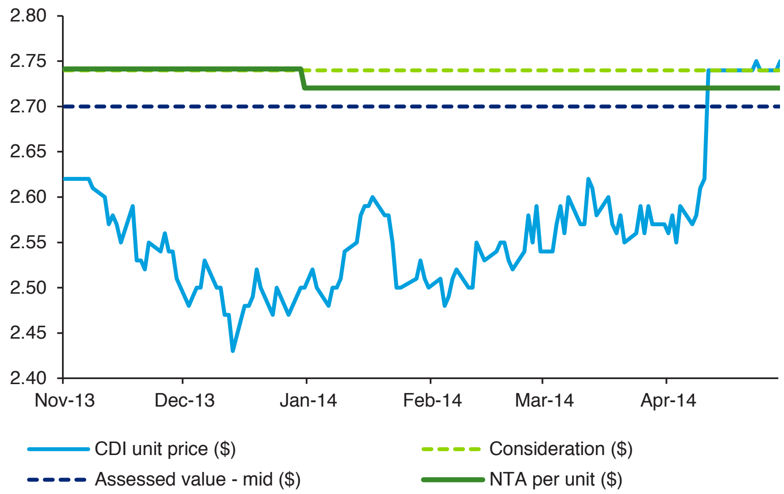
The share market generally provides an objective measure of the market value of an entity's units provided that there is an active, well informed market for the units and that there are no abnormal factors reflected in market prices, such as takeover speculation.

Whilst we note that there is low liquidity in the trading of CDI units as set out in Section 3.6 above, we consider that the trading in the units of CDI prior to the announcement of the Takeover Offer provides a reasonable, albeit high-level cross-check to our assessment of the fair market value of a unit in CDI since:

- CDI has recently provided an update to the market in respect of the HY13 results and prospects for the remainder of FY14
- due to the stake in CDI held by Challenger Life and the presence of a number of institutional shareholders on the register, it could be argued that there was a reasonable expectation of a control transaction in CDI at some stage in the near term which would be reflected in recent trading in CDI units.

We note prior to the announcement of the Takeover offer, CDI was trading at a 5% discount to its underlying NTA value as set out below:

Figure 16: CDI unit price comparison



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Notwithstanding the low liquidity, but noting our comments above, we consider this analysis to provide broad support for our assessment of fairness.

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Appendix A: Context to the Report

Individual circumstances

We have evaluated the Takeover Offer for Non-Associated Unitholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of CLIL and is to be included in the Target's Statement to be given to Non-Associated Unitholders for consideration of the Takeover Offer in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Target's Statement in their assessment of the Takeover Offer outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Unitholders and CLIL, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by CDI and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to CDI management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by CDI, CLIL and its officers, employees, agents or advisors, CLIL has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which CLIL may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by CDI and its officers, employees, agents or advisors or the failure by CDI and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Takeover Offer.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of CDI and CLIL personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (**AUASB**) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for CDI included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of CDI referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Rachel Foley-Lewis, Director, B.Comm., CA, F.Fin; Tapan Parekh B.Bus, M.Com, CA, F.Fin and Dave Pearson, Associate Director, B.Comm, CBV, CFA, CA, MApp Fin. Each has many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

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Appendix B: Valuation methodologies

To estimate the fair market value of the units in CDI we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert's reports. These are discussed below.

Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its securities or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent trading history provides evidence of the fair market value of the securities in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies

Appendix C: Comparable entities

Table 14: Comparable entities

Company	Market capitalisation ($million)	Premium/ (discount) to NTA	Distribution yield	Current EBIT multiple	Forward EBIT multiple
Challenger Diversified Property Group[1]	587	1.1%	6.8%	13.8x	13.4x
Office REIT					
Investa Office Fund	2,057	(0.0%)	5.5%	14.5x	13.7x
GDI Property Group Limited	542	4.9%	n/a	20.6x	10.0x
Brookfield Prime Property Fund	218	(26.2%)[5]	1.8%[5]	n/a	n/a
360 Capital Office Fund	n/a	4.9%	n/a	n/a	n/a
Average- office REIT		**3.3%**	**5.5%**	**17.6x**	**11.8x**
Median- office REIT		**4.9%**	**5.5%**	**17.6x**	**11.8x**
Industrial REIT					
BWP Trust	1,605	16.9%	5.6%	17.5x	15.2x
360 Capital Industrial Fund	201	8.6%	8.5%	12.9x	12.6x
Australian Industrial REIT	195	6.3%	n/a	20.3x	11.9x
Average- industrial REIT		**10.6%**	**7.0%**	**16.9x**	**13.2x**
Median- industrial REIT		**8.6%**	**7.0%**	**17.5x**	**12.6x**
Retail REIT					
Westfield Group	22,318	12.6%	4.7%	15.7x	14.9x
Westfield Retail Trust	9,474	(15.3%)	6.2%	15.9x	15.2x
CFS Retail Property Trust Group	6,127	(6.2%)	6.7%	16.1x	15.0x
Federation Centres	3,498	2.6%	6.1%	16.2x	15.6x
Charter Hall Retail REIT	1,410	8.5%	7.1%	14.9x	14.2x
Shopping Centres Australasia Property Group	1,090	4.1%	6.4%	14.9x	14.6x
Carindale Property Trust	402	(14.0%)	5.3%	17.7x	17.2x
Average- retail REIT		**(1.1%)**	**6.1%**	**15.9x**	**15.2x**
Median- retail REIT		**2.6%**	**6.2%**	**15.9x**	**15.0x**
Diversified					
Stockland Corp. Ltd.	9,023	7.5%	6.2%	19.0x	17.0x
Mirvac Group	6,517	2.3%	5.1%	16.1x	15.1x
GPT Group	6,573	(7.4%)	5.2%	14.9x	14.2x
Dexus Property Group	6,085	13.6%	5.6%	16.2x	14.7x
Australand Holdings Limited	2,484	5.0%	5.1%	13.7x	13.2x
Cromwell Property Group	1,682	34.8%	7.9%	18.9x	17.7x
Growthpoint Properties Australia	1,186	18.2%	7.7%	13.7x	13.0x
Abacus Property Group	1,243	(2.1%)	6.8%	14.5x	11.6x
Astro Japan Property Group	259	(34.0%)	5.2%	5.5x	5.5x
Industria Reit	239	(5.4%)	n/a	12.1x	8.3x
Aspen Group	161	(25.8%)	11.2%	n/a	6.4x
Average- diversified REIT		**0.6%**	**6.6%**	**14.5x**	**12.4x**
Median- diversified REIT		**2.3%**	**5.9%**	**14.7x**	**13.2x**
Average - all REIT		**1.7%**	**6.4%**	**15.5x**	**13.3x**
Median- all REIT		**4.5%**	**6.2%**	**15.8x**	**14.2x**

Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Notes:

1. Based on the Consideration
2. Based on security prices as at 1 May 2014 and most recently published NTA
3. Outliers excluded from the calculation of the average and median
4. n/m: not meaningful
5. n/a: not available

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Appendix D: Comparable transactions

Table 15: Comparable transactions

Date	Target	Consideration[1] ($million)	Premium/ (discount) to NTA[2]	Distribution yield historical[3]	Distribution yield forecast[4]	EBIT multiple[5] historical[3]	EBIT multiple[5] forecast[4]
Apr-14	360 Capital Office Fund[6]	155	4.9%	n/a	8.50%	18.7x	15.9x
Mar-14	Australand Holdings Limited	2,186	6.2%	5.7%	5.8%	11.7x	n/a
Dec-13	National Storage[6]	195	6.0%	n/a	8.0%	n/a	9.3x
Dec-13	GDI Property Group[6]	568	9.9%	n/a	6.5%	nmf	n/a
Oct-13	Australian Industrial REIT[6]	129	3.5%	n/a	8.3%	n/a	n/a
Oct-13	Commonwealth Property Office Fund[7]	2,910	4.2%	5.3%	5.4%	16.2x	n/a
Aug-13	360 Capital Property Group	70.8	0.0%	15.3%	8.5%	n/a	n/a
Apr-12	Thakral Holdings Group	507	(15.6%)	n/a	n/a	n/a	n/a
Jan-12	Charter Hall Office REIT	1,228	(3.9%)	n/a	5.3-6.5%	n/a	n/a
Jan-12	Abacus Storage Fund	132	(8.2%)	7.4%	n/a	n/a	n/a
Apr-11	Valad Property Group	209	(22.1%)	n/a	n/a	n/a	n/a
Apr-11	Rabinov Property Trust	50	(4.3%)	10.0%	8.6%	n/a	n/a
Dec-10	ING Industrial Fund	1,395	(1.5%)	3.0%	6.0%	n/a	n/a
Jul-10	MacarthurCook Industrial Property	43	(32.1%)	4.1%	4.1%	n/a	n/a
Apr-10	Westpac Office Trust	417	3.1%	7.7%	7.7%	n/a	n/a
Oct-09	Mirvac Real Estate Investment Trust	373	(29.9%)	5.5%	5.4%	n/a	n/a
May-09	Orchard Industrial Property Fund	255	(11.9%)	n/a	8.8%	n/a	n/a
	Average		**(5.4%)**	**7.1%**	**7.0%**	**15.6x**	**12.6x**
	Median		**(1.5%)**	**5.7%**	**7.1%**	**16.2x**	**12.6x**

Source: S&P Capital IQ, Mergermarket, ASX announcements, company websites, Deloitte Corporate Finance analysis

Notes:

1. Implied value of 100% of the entity acquired
2. NTA are based on most recent publicly available data and include provision for distribution
3. Based on most recent publicly available historical data
4. Based on publicly available forecast EBIT
5. Based on implied enterprise value (i.e. sum of the consideration and most recently publicly available net debt)
6. Transaction that reflects an IPO. Financial data based on PDS.
7. Financials have been calculated based on the following offer: $0.7745 cash and 0.4516 Dexus units per Commonwealth Property Office Fund unit
8. n/a: not available

Appendix E: Sources of information

In preparing this report we have had access to the following principal sources of information:

- transaction documents including:
    - Target’s Statement
    - Bidder’s Statement
- audited financial statements for CDI for the years ending 30 June 2011, 2012, 2013 and reviewed financial statements for the six months to 31 December 2013
- Internal and external valuations undertaken in respect of CDI’s properties
- Relevant lease documentation, management reports and trust model for CDI
- analysis of costs of CDI
- other corporate documents
- company websites for CDI and comparable companies
- publicly available information on comparable companies and market transactions published by ASX, Thompson Research, S&P Capital IQ and Mergermarket
- other publicly available information, media releases and brokers reports on CDI, comparable companies and the AREIT sector.

In addition, we have had discussions and correspondence with CDI’s management team in relation to the above information and to current operations and prospects.

Appendix 2: CDI ASX announcements since 4 February 2014

Announcement	Date released to ASX
Change in substantial holding from CGF	5 May 2014
Change in substantial holding from CGF	2 May 2014
Change in substantial holding from CGF	30 April 2014
Notice of dispatch of Bidder's Statement to Unitholders	29 April 2014
CDI to be removed from S&P/ASX All Ordinaries Index	29 April 2014
Ceasing to be a substantial holder	28 April 2014
Change in substantial holding from CGF	24 April 2014
Change in substantial holding from CGF	23 April 2014
Change of Director's Interest Notice	17 April 2014
Change in substantial holding from CGF	17 April 2014
Change of Director's Interest Notice	16 April 2014
Change of Director's Interest Notice	15 April 2014
Change of Director's Interest Notice	15 April 2014
Change in substantial holding from CGF	15 April 2014
Change in substantial holding from CGF	14 April 2014
Bidder's Statement from CGF	11 April 2014
CDI receives final cash offer of $2.74 from Challenger Life	11 April 2014
CGF: Challenger Life makes offer for CDI	11 April 2014
Trading halt	11 April 2014
CDI sells 187 Todd Road, Port Melbourne	04 April 2014
Half-year update 31 December 2013	28 February 2014

Source: ASX website

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