

# ASX Announcement

21 August 2015

## **Brookfield Prime Property Fund (ASX: BPA) Annual Results 2015**

Brookfield Capital Management Limited (BCML) as Responsible Entity for Brookfield Prime Property Fund (the Fund) announces the Fund's annual results for the financial year ended 30 June 2015.

Key messages are:

- net profit of \$34.3 million (30 June 2014: \$19.9 million);
- net assets of \$352.9 million (30 June 2014: \$312.5 million) or \$7.20 per unit (30 June 2014: \$6.37);
- portfolio value of \$950.2 million (30 June 2014: \$894.8 million);
- total revenue and other income of \$96.1 million (30 June 2014: \$81.6 million);
- earnings per unit of 70.0 cents (30 June 2014: 40.7 cents);
- distributions paid to investors for the period of 8.0 cents per unit; and
- the Fund is in compliance with all debt covenants.

### **Increase in net assets**

The increase in the Fund's net assets during the year from \$6.37 to \$7.20 per unit was principally due to an increase in the property portfolio value from \$894.8 million to \$950.2 million.

### **Portfolio update**

The property portfolio was externally valued as at 30 June 2015 resulting in an increase in value of 6.2% to \$950.2 million. The increase in value is attributed to yield compression in the Sydney and Melbourne CBD office markets, due to a demand for prime and premium office assets exceeding supply.

The portfolio weighted average lease expiry (by ownership and income) decreased from 4.7 years to 4.5 years.

The operating performance of the portfolio continues to be in line with expectations. The decrease in property portfolio occupancy from 99% to 96% can be largely attributed to 108 St Georges Terrace, Perth and the expiry of the major tenant lease in November 2014. Vacancy risk at that property was mitigated during the period with a new lease for over approximately 8,300 square meters of space. Continued asset management initiatives coupled with ongoing high quality building upgrades will maintain the competitiveness of the property in a challenging leasing market.

The reduction in the portfolio weighted average lease expiry (by ownership and income) from 4.7 years to 4.5 years reflects looming vacancies in the Ernst & Young Centre and American Express House and BCML is focused on capitalising on leasing opportunities where available, in a relatively strong leasing market.

A summary of the property valuations as at 30 June 2015 is as follows:

<b>Property</b>	<b>Location</b>	<b>Fund % Interest</b>	<b>30 June 2015 Valuation \$'m</b>	<b>30 June 2014 Valuation \$'m</b>
Ernst & Young Centre and 50 Goulburn Street	Sydney	50	287.0	265.0
American Express House	Sydney	100	158.0	145.0
Southern Cross East Tower	Melbourne	25	180.9	171.3
Southern Cross West Tower	Melbourne	50	154.3	147.5
108 St Georges Terrace	Perth	50	170.0	166.0
<b>Total</b>			<b>950.2</b>	<b>894.8</b>

## Capital management

Cashflow from the properties continues to be largely deployed for capital expenditure and lease incentives at Ernst & Young Centre, Sydney and 108 St Georges Terrace, Perth and this is likely to continue over the next 12 to 18 months. Short term requirements are expected to be funded from cash reserves and debt facilities. BCML will continue to monitor cashflows and distribution policies, which remain constrained by operating requirements and the interest rate swap which expires in July 2016.

## Further information

Further information regarding the Fund's annual results is available in the 2015 Annual Report. It is recommended that investors review this document. Additionally, the financial report for the year ended 30 June 2015 is available at [www.au.brookfield.com](http://www.au.brookfield.com).

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Brookfield Customer Service  
Ph: 1800 570 000



# BROOKFIELD PRIME PROPERTY FUND

ARSN 110 096 663

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## Annual Report 2015

Responsible Entity  
**Brookfield Capital  
Management Limited**  
ACN 094 936 866  
AFSL 223809

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Cover image: Southern Cross West Tower, Melbourne

# Message from the Chairman

On behalf of the Board of Brookfield Capital Management Limited (BCML), enclosed is the Brookfield Prime Property Fund (Fund) annual report for the financial year to 30 June 2015.

## FINANCIAL RESULTS

The Fund reported a net profit of \$34.3 million for the period, compared to a net profit of \$19.9 million for the same period last year.

Key financial results as at 30 June 2015 include:

- net assets of \$352.9 million (30 June 2014: \$312.5 million);
- net assets per unit of \$7.20 per unit (30 June 2014: \$6.37);
- portfolio value of \$950.2 million (30 June 2014: \$894.8 million);
- total revenue and other income of \$96.1 million (30 June 2014: \$81.6 million); and
- earnings per unit of 70.0 cents (30 June 2014: 40.7 cents).

The Fund is currently in compliance with its debt covenants.

## PROPERTY PORTFOLIO

The property portfolio was externally valued as at 30 June 2015 and increased in value by 6.2% to \$950.2 million. Portfolio occupancy is 96% (30 June 2014: 99%) and weighted average lease expiry (WALE) by ownership and income is 4.5 years (30 June 2014: 4.7 years).

## DEBT

As at 30 June 2015, the senior debt facility remains at \$520 million and the balance of the subordinated facility has increased to \$52.7 million. The Fund is in compliance with its debt covenants.

## OUTLOOK AND CAPITAL MANAGEMENT

The operating performance of the portfolio continues to be in line with expectations. The property portfolio vacancy rate of 4% is largely attributed to 108 St Georges Terrace, Perth and the expiry of the major tenant lease in November 2014. Vacancy risk at that property was mitigated during the period with a new lease for approximately 8,300 square meters. Continued asset management initiatives coupled with ongoing building upgrades will maintain the competitiveness of the property in a challenging leasing market.

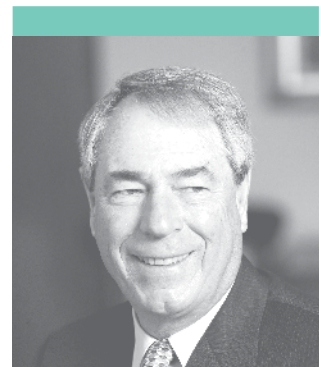
The reduction in the portfolio WALE reflects looming vacancies in the Ernst & Young Centre and American Express House and BCML is focused on capitalising on leasing opportunities where available, in a relatively strong leasing market.

Cashflow from the properties continues to be largely deployed for capital expenditure and lease incentives at Ernst & Young Centre, Sydney and 108 St Georges Terrace, Perth and this is likely to continue over the next 12 to 18 months. Short term requirements are expected to be funded from cash reserves and debt facilities. BCML will continue to monitor cashflows and distribution policies which remain constrained by operating requirements and the interest rate swap which expires in July 2016.

On behalf of the Board, thank you for your ongoing support.



F. Allan McDonald,  
Independent Chairman



# Year in Review

Brookfield Capital Management Limited (BCML), the Responsible Entity of Brookfield Prime Property Fund (Fund) provides a review of the financial year ended 30 June 2015.

## MOVEMENT IN NET ASSETS

Underlying net assets of the Fund increased from \$6.37 to \$7.20 per unit during the period. This increase is mainly due to the property portfolio value uplift from \$894.8 million to \$950.2 million.

## EARNINGS

Net profit for the current period is \$34.3 million (30 June 2014: \$19.9 million). The increase largely reflects the net unrealised increase on underlying investment properties.

Lower rental income derived over the year largely reflects the vacancies experienced at 108 St Georges Terrace, Perth.

## DISTRIBUTIONS

The Fund paid \$3.9 million in distributions or 8 cents per unit for the year to 30 June 2015.

## PROPERTY PORTFOLIO

The property portfolio was externally valued as at 30 June 2015 resulting in an increase in value of 6.2% from 30 June 2014. In arriving at an opinion of value, the external valuations considered both the discounted cash flow (DCF) approach and capitalisation analysis. The DCF approach discounts the property's forecast net cash flow over a ten year investment period at a pre-selected hurdle rate of return.

The methodology involves forward projection of a number of assumptions including terminal capitalisation rates, discount rates, market rental rates, rental growth and time required to lease vacant space.

The capitalisation analysis estimates the net market income of the property on a fully leased basis and capitalises the net market income in perpetuity at a capitalisation rate that reflects the nature, location and tenancy profile of the property compared to current market investment criteria. Adjustments are then made to the capital value of the property to allow for the costs required to lease existing and upcoming vacant space and other items.

In the six month period to 30 June 2015, portfolio occupancy increased from 93.4% to 96.0% as a result of South32's new lease over 8,300 square meters at 108 St Georges Terrace, Perth. The portfolio weighted average lease expiry (by ownership and income) declined from 4.9 to 4.5 years.

Office investment demand in the Sydney and Melbourne CBD markets remain strong, underpinned by the depth of demand from offshore investors and superannuation funds. Due to demand exceeding the supply of prime and premium assets, investors are now also targeting higher risk secondary and non-core assets, leading to yield compression in both the Sydney and Melbourne CBD premium and secondary office markets.

## PROPERTY SUMMARY

PROPERTY	LOCATION	FUND SHARE (%)	VALUATION TYPE	VALUE AT 30 JUNE 2015 \$M	VALUE AT 30 JUNE 2014 \$M	% CHANGE 12 MTHS
Ernst & Young Centre and 50 Goulburn Street	Sydney	50	External	287.0	265.0	8.3
American Express House	Sydney	100	External	158.0	145.0	9.0
Southern Cross East Tower	Melbourne	25	External	180.9	171.3	5.6
Southern Cross West Tower	Melbourne	50	External	154.3	147.5	4.6
108 St Georges Terrace	Perth	50	External	170.0	166.0	2.4
<b>Total</b>				<b>950.2</b>	<b>894.8</b>	<b>6.2</b>

The Sydney CBD market is also experiencing strong net absorption and improved vacancy due to stronger demand for CBD office space and a decline in supply of space, as the withdrawal of existing office space for conversion to alternative uses increases. The supply of Sydney CBD office space is expected to peak in 2016 after the completion of several major new developments. However, vacancy rates will be moderated as new supply of office space is offset by the continuing withdrawal of space for conversion to alternative uses.

#### Ernst & Young Centre and 50 Goulburn Street, Sydney

During the year, the Ernst & Young Centre and 50 Goulburn Street properties recorded an increase of 8.3% in their combined value. The properties benefited from strong market fundamentals in the Sydney CBD office market which has led to further yield compression for prime assets.

The impending vacancy risk from the expiry of the Ernst & Young lease in December 2016 was mitigated during the year with the commencement of a new lease in January 2015 to Tabcorp for 4,800 square meters and Austereo renewing their lease of three floors and roof space for a seven year term.

#### American Express House, Sydney

During the year, the value of American Express House increased by 9.0% reflecting the strength of investor demand, from both foreign interest and local institutional investors for Sydney CBD office assets resulting in a firming of yields.

### Underlying net assets of the Fund increased from \$6.37 to \$7.20 per unit during the period.

American Express House is currently fully leased with the expiry of the American Express lease due in December 2018. The increase in value of American Express House attributed to a tightening of yields has been offset by an increase in capital expenditure and incentive allowance to reflect the risks associated with the expiry of the American Express lease in December 2018.

#### 108 St Georges Terrace, Perth

During the year, 108 St Georges Terrace recorded a 2.4% increase in value despite the weakening Perth CBD office market. The uplift in value of 108 St Georges Terrace reflects the comprehensive capital program implemented at the property and ongoing floor refurbishment.

The vacancy risk at 108 St Georges Terrace was mitigated during the period due to the lease of approximately 8,300 square meters to South32. As a result, the WALE at 108 St Georges Terrace increased from 3.4 years at 31 December 2014 to 6.8 years at 30 June 2015.

## NET ASSETS RECONCILIATION



# Year in Review

## **Southern Cross East and West Towers, Melbourne**

During the year, Southern Cross East and West Towers increased in value by 5.6% and 4.6% respectively. The increases in value reflect current strong investor appetite for A grade real estate leading to yield compression in the Melbourne CBD office market, despite weaker leasing conditions.

Southern Cross West is anchored by major tenant, Australia Post, with Southern Cross East anchored by two major tenants, Department of Treasury and Finance and Department of Transport. Each property benefits from annual rental increases. As is the case with American Express House both valuations factor in capital expenditure and incentive allowances to reflect the risk associated with expiry of the major leases.

## **SENIOR AND SUBORDINATED DEBT**

As at 30 June 2015, the senior debt facility remained at \$520 million and the balance of the subordinated facility increased to \$52.7 million. The senior debt facility is subject to a margin of 1.75% above average bid rate on Reuters BBSY (BBR). The subordinated facility is subject to BBR plus a margin of 3.75% per annum.

## **SWAPS**

The Fund continues to pay a fixed rate of 5.88% on \$433.4 million under an interest rate swap until July 2016. Any additional amount owing under the senior debt facility remains unhedged at present.

## **TAX POSITION OF THE FUND**

The Fund has carried forward income tax losses of approximately \$85.9 million as at 30 June 2015. Use of these losses is subject to satisfaction of various tests, the benefit of tax losses is not reflected as an asset in the Fund's balance sheet.



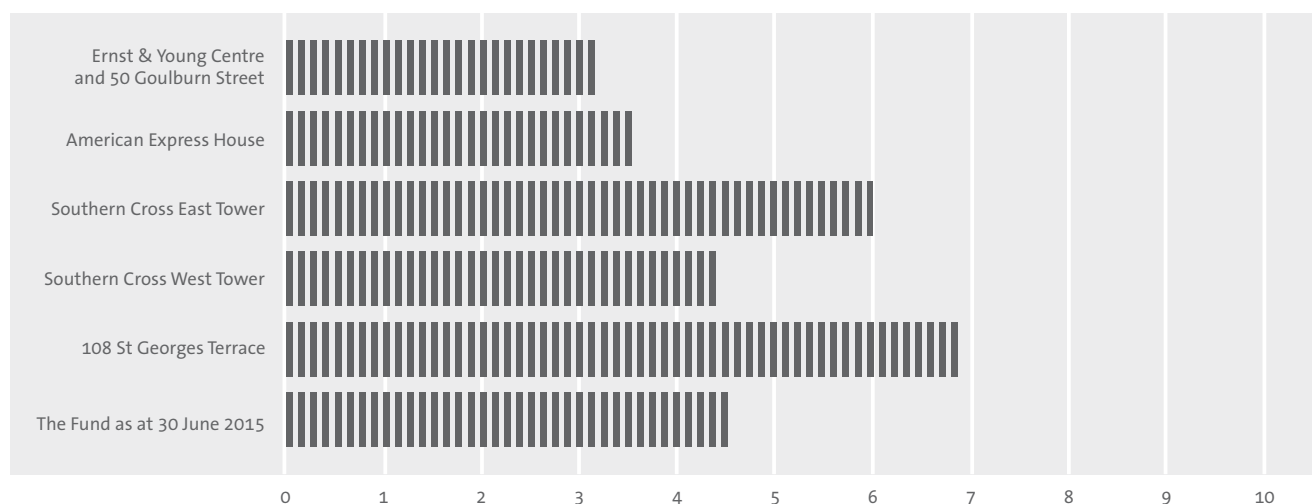
# Property Analysis

## FUND SNAPSHOT (as at 30 June 2015)

Market capitalisation	\$245.1 million
Funds under management	\$966.5 million
Listing date	15 September 2006
NTA per unit	\$7.20
Portfolio occupancy	96%
Portfolio weighted average lease term by income	4.5
Loan to value ratio – senior debt only	55%
Loan to value ratio – senior and subordinated debt	60%
Management fee	0.65% p.a. (excluding GST) of gross asset value
Performance fee	Tier 1 – 5%, Tier 2 – 15% (excluding GST) of benchmark <sup>1</sup> outperformance.

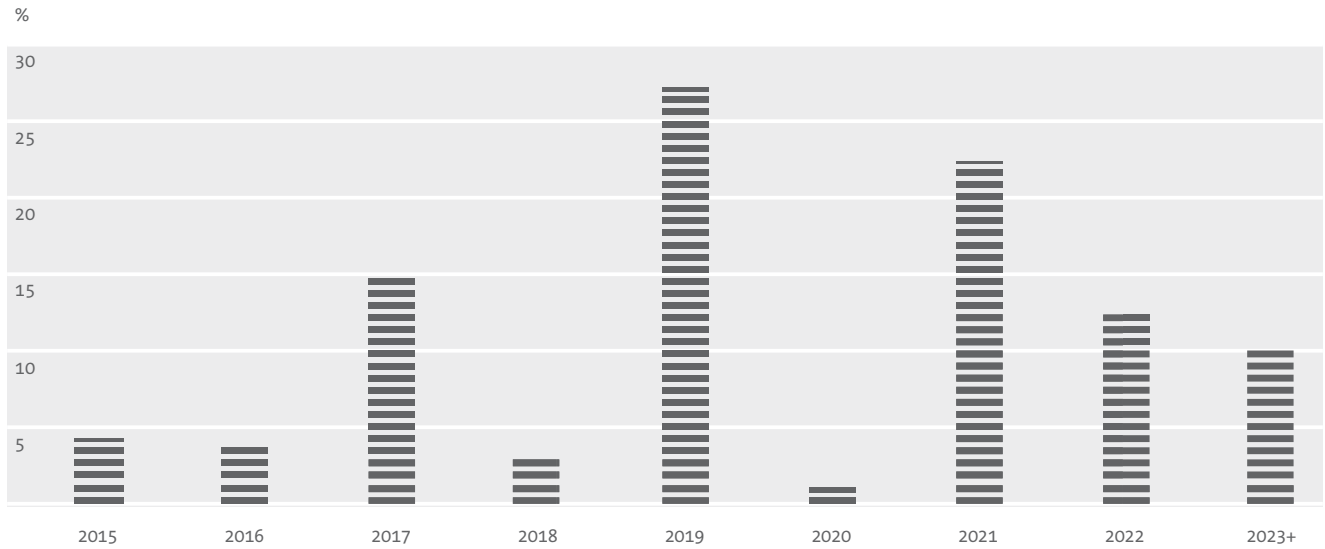
1 UBS Commercial Property Accumulation (200) Index.

## WEIGHTED AVERAGE LEASE EXPIRY (by ownership and income)



# Property Analysis

## LEASE EXPIRY PROFILE (by ownership and income)



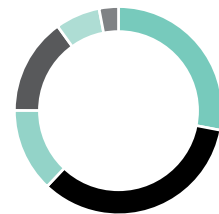
### GEOGRAPHIC ALLOCATION (by value)

- 47% New South Wales
- 35% Victoria
- 18% Western Australia



### TENANCY MIX (by income)

- 28% Victorian State Government
- 15% Australia Post
- 13% Ernst & Young
- 7% American Express
- 3% South 32
- 34% Other



**PROPERTY DESCRIPTION**

Ernst & Young Centre is a landmark commercial office tower within the southern periphery of the midtown precinct of the Sydney CBD. The property comprises a substantial lobby with two retail areas and 36 upper levels of office accommodation incorporating low, mid, high and sky rise. Surrounding the property is World Square Shopping Centre and public transport facilities.

50 Goulburn Street is an A-grade commercial building situated on the corner of George Street and Goulburn Street, incorporating ground floor, four levels of office accommodation, a small rooftop terrace and car parking for 28 vehicles. The property’s services are integrated with the Ernst & Young Centre.

**KEY FEATURES**

Ownership (%)	50
Net lettable area – whole building (sqm)	67,810
Occupancy (%)	99.3
Weighted average lease expiry (years by income)	3.2
Acquisition date	May 2006

**SUSTAINABILITY CREDENTIALS**

NABERS Energy	★★★★☆
NABERS Water	★★★★☆
NABERS Indoor Environment Quality	★★★★★

**VALUATION SUMMARY**

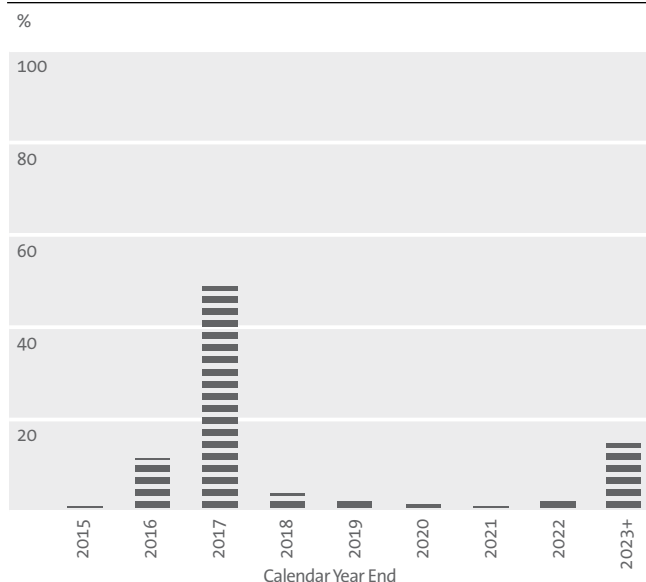
External valuation (50%)	\$287.0 million
External valuation date	30 June 2015

**TENANCY MIX (by income)**

- 42% Ernst & Young
- 8% Link Market Services
- 7% Tabcorp
- 5% Austereo
- 5% Parsons Brinckerhoff
- 33% Other



**LEASE EXPIRY (by area)**



Note: The Ernst & Young lease expires on 31 December 2016.



**Ernst & Young Centre and 50 Goulburn Street, Sydney**

# Property Analysis

## PROPERTY DESCRIPTION

American Express House is an A-grade commercial office building completed in late 2007. The property comprises 10 levels of commercial office, fully occupied by American Express, with ground floor retail and underground parking for 69 vehicles.

The property is located within the western corridor precinct of the Sydney CBD with frontage on Shelley Street. American Express House is proximate to Wynyard Railway Station and Bus Interchange, King Street Wharf public ferry terminal, and the retail and restaurants at King Street Wharf.

## KEY FEATURES

Ownership (%)	100
Net lettable area – whole building (sqm)	14,969
Occupancy (%)	100
Weighted average lease expiry (years by income)	3.5
Acquisition date	December 2007*

\*Date Practical Completion achieved.

## SUSTAINABILITY CREDENTIALS

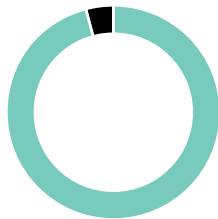
NABERS Energy	★★★★★
NABERS Water	★★★★★
NABERS Indoor Environment Quality	★★★★★

## VALUATION SUMMARY

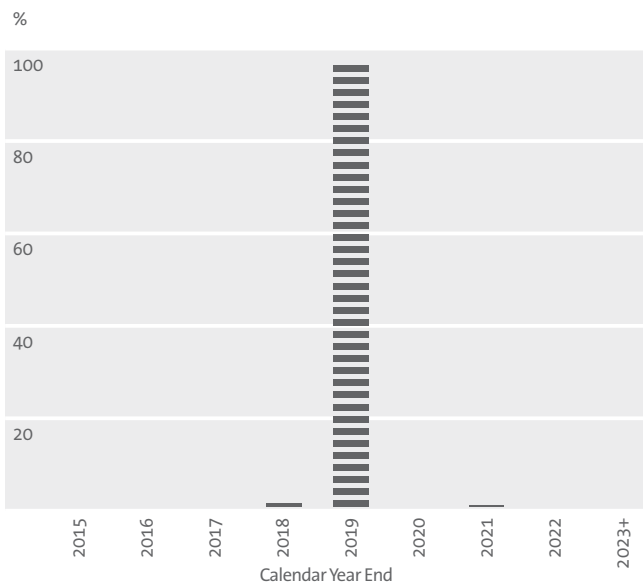
External Valuation (100%)	\$158.0 million
External Valuation date	30 June 2015

## TENANCY MIX (by income)

- 95% American Express
- 5% Other



## LEASE EXPIRY (by area)



Note: The American Express lease expires on 31 December 2018.



# American Express House, Sydney

**PROPERTY DESCRIPTION**

Southern Cross East Tower is a landmark A-grade office building with premium grade services. The building comprises a ground level foyer and retail tenancies, 36 levels of office accommodation and basement parking for 950 vehicles.

The property is located at the eastern end of the Melbourne CBD bordering Exhibition, Bourke and Little Collins Streets. Public transport facilities include tram and bus services and Parliament Railway Station is situated 100 metres to the west.

**KEY FEATURES**

Ownership (%)	25
Net lettable area – whole building (sqm)	79,731
Occupancy (%)	100
Weighted average lease expiry (years by income)	6.0
Acquisition date	May 2006

**SUSTAINABILITY CREDENTIALS**

NABERS Energy	★★★★☆
NABERS Water	★★★★☆
NABERS Indoor Environment Quality	★★★★★

**VALUATION SUMMARY**

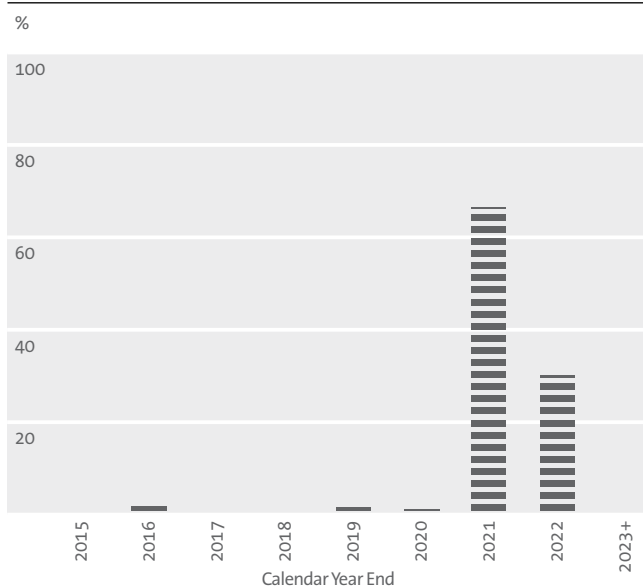
External Valuation (25%)	\$180.9 million
External Valuation date	30 June 2015

**TENANCY MIX (by income)**

- 61% Victorian State Government (DOTF)
- 26% Victorian State Government (DOT)
- 13% Other



**LEASE EXPIRY (by area)**



**Southern Cross East Tower, Melbourne**

# Property Analysis

## PROPERTY DESCRIPTION

Southern Cross West Tower forms part of the Southern Cross landmark development. The A-grade property was completed in 2009 and comprises ground floor retail tenancies, lobby, 20 upper levels of office accommodation and basement parking.

The property is located at the eastern end of the Melbourne CBD, bordering Bourke and Little Collins Streets. Public transport facilities include tram and bus services and Parliament Railway Station is situated 100 metres to the west.

## KEY FEATURES

Ownership (%)	50
Net lettable area – whole building (sqm)	46,326
Occupancy (%)	100
Weighted average lease expiry (years by income)	4.4
Acquisition date	July 2011

## SUSTAINABILITY CREDENTIALS

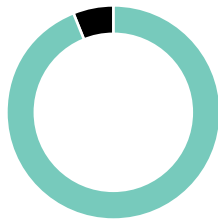
NABERS Energy	★★★★★
NABERS Water	★★★★★
NABERS Indoor Environment Quality	★★★★★
Green Star Office Design V2	★★★★★

## VALUATION SUMMARY

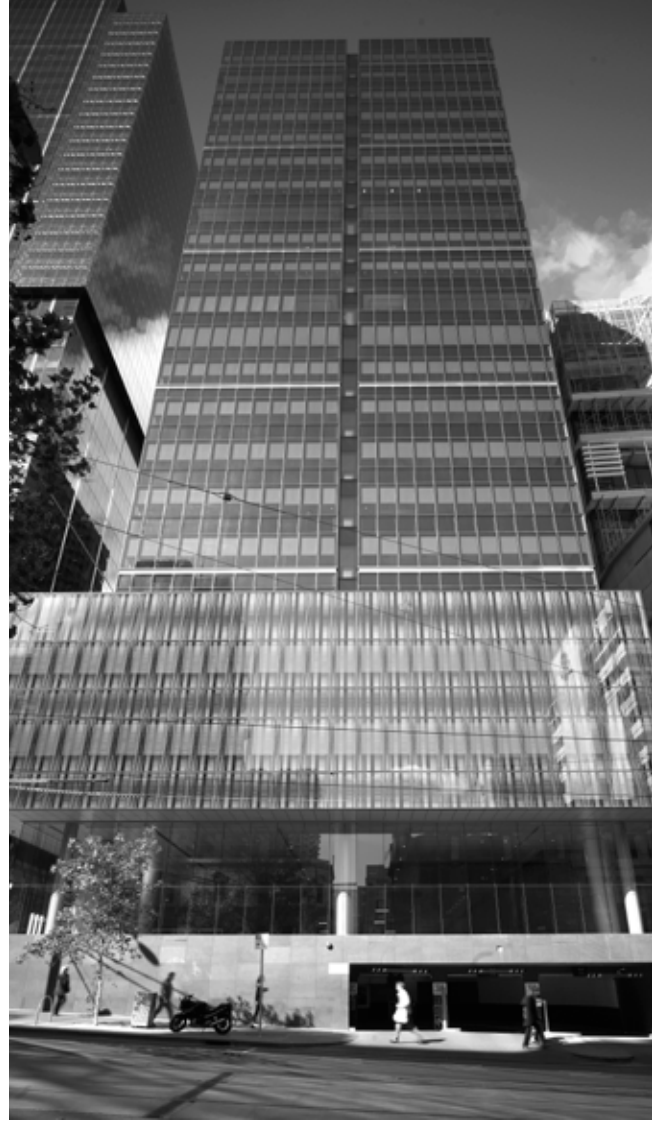
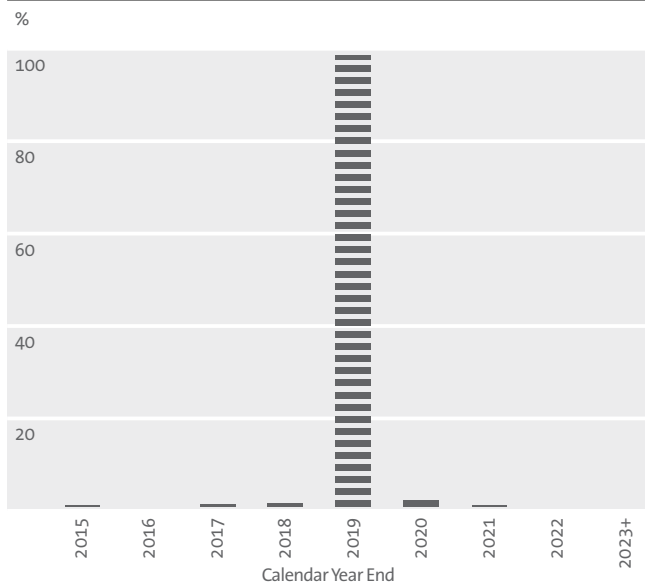
External valuation (50%)	\$154.3 million
External valuation date	30 June 2015

## TENANCY MIX (by income)

- 95% Australia Post
- 5% Other



## LEASE EXPIRY (by area)



# Southern Cross West Tower, Melbourne



**PROPERTY DESCRIPTION**

108 St Georges Terrace is an A-grade, 52-level commercial office tower and includes the four-level heritage listed Palace building, comprising ground floor banking chamber with associated offices on the upper levels.

The property is prominently located on the corner of St Georges Terrace and William Street in the core of the Perth CBD and has expansive city views from the upper floors.

**KEY FEATURES**

Ownership (%)	50
Net lettable area – whole building (sqm)	38,549
Occupancy (%)	75.8
Weighted average lease expiry (years by income)	6.8
Acquisition date	July 2011

**SUSTAINABILITY CREDENTIALS**

NABERS Energy	0 Stars*
NABERS Water	★★

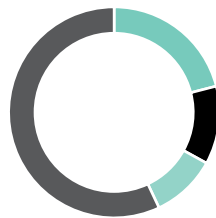
\*The proposed building upgrade is likely to achieve a NABERS Energy Rating of 4.5 Stars to 5.5 Stars.

**VALUATION SUMMARY**

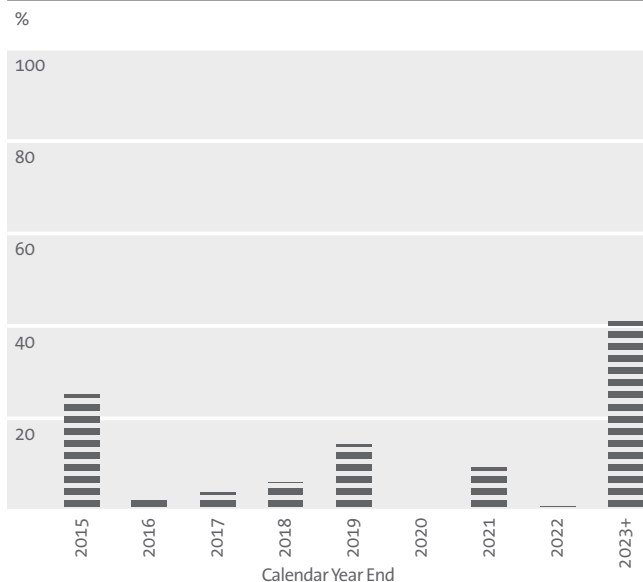
External Valuation (50%)	\$170.0 million
External Valuation date	30 June 2015

**TENANCY MIX (by income)**

- 21% South 32
- 12% Apache Energy
- 10% Norton Rose
- 57% Other



**LEASE EXPIRY (by area)**



**108 St Georges Terrace, Perth**

# ASX Additional Information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The equity holder information set out below was applicable as at 18 August 2015.

## 1. SUBSTANTIAL HOLDERS

NAME	NUMBER OF UNITS	% OF ISSUED ORDINARY UNITS
Brookfield Asset Management Inc. <sup>1</sup>	39,452,437	79.775
Greig & Harrison Pty Ltd	2,451,606	5

1. The information is based on the ASX announcement dated 25 May 2012.

## 2. DISTRIBUTION OF ORDINARY UNITS

Analysis of numbers of unitholders by size of holding:

	UNITS	UNITHOLDERS
1–1,000	30,946	397
1,001–5,000	468,390	165
5,001–10,000	757,558	101
10,001–100,000	2,780,346	111
100,001 and over	44,991,910	21
<b>Total</b>	<b>49,029,150</b>	<b>795</b>

There were 313 holders with less than a marketable parcel of 100 securities (\$5.00 on 18 August 2015).

## 3. ON-MARKET BUY BACK

There is no current on-market buy back program.



#### 4. UNITHOLDERS

##### Twenty largest quoted unitholders

The twenty largest holders of ordinary units are listed below:

NAME	ORDINARY UNITS	
	NUMBER HELD	% OF ORDINARY UNITS
Brookfield Capital Securities Limited	25,895,419	52.82
Trust Company Limited	10,893,945	22.22
Brookfield Securities (Australia) Pty Ltd	2,625,701	5.36
Horrie Pty Ltd	961,000	1.96
J P Morgan Nominees Australia Limited	786,320	1.60
ANZ Trustees Limited	459,836	0.94
ANZ Trustees Limited	441,860	0.90
Mrs Helene Neuman	400,000	0.82
Geoffrey Gardiner Dairy Foundation Ltd	353,569	0.72
Hillmorton Custodians Pty Ltd	303,921	0.62
Farcrest Holdings Pty Ltd	268,500	0.55
EQT Wealth Services Limited	268,405	0.55
Equity Trustees Wealth Services Limited	232,879	0.47
ANZ Trustees Limited	198,728	0.41
Stilwood Custodians Pty Ltd	161,736	0.33
EQT Wealth Services Limited	136,577	0.28
Stilwood Pty Ltd	127,071	0.26
BNP Paribas Noms (Nz) Ltd	124,690	0.25
Kelpador Pty Ltd	118,877	0.24
Indevco Group Holdings Pty Limited	118,554	0.24
<b>Total</b>	<b>44,877,588</b>	<b>91.53</b>

#### 5. CLASS OF UNITS

The only class of units on issue is ordinary fully paid units.

#### 6. VOTING RIGHTS

Refer to Note 15 of the financial statements for details of voting rights.

# Investor Relations

## ASX LISTING

Brookfield Prime Property Fund is listed on the ASX under the code BPA. Daily unit prices can be found in all major Australian newspapers, on the ASX website and at [www.au.brookfield.com](http://www.au.brookfield.com).

## ONLINE SERVICES

Accessing investments online is one of the many ways that Brookfield is ensuring convenience and accessibility to unitholder investment holdings. Links to the registry providers are available via the Brookfield website. Unitholders can access their account balance, transaction history and distribution details.

## E-COMMUNICATIONS

The default for Brookfield annual and interim reports is now electronic. Online versions of the annual and interim reports are available at [www.au.brookfield.com](http://www.au.brookfield.com).

Investors who have elected to receive hard copy reports will continue to receive them. Should you wish to change your preference, please contact the share registry on 1800 685 455.

## CONTACT THE REGISTRY

Queries relating to individual unit holdings or requests to change investment record details such as:

- change of address (issuer sponsored holdings only)
- update method of payment for receiving distributions
- tax file number notification
- annual report election

should be addressed to:

Link Market Services Limited  
 Level 12, 680 George Street  
 Sydney NSW 2000  
 Freecall: 1800 685 455  
 Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

## INVESTOR SERVICES

Investors wishing to register a complaint should direct it to:

The Manager  
 Brookfield  
 GPO Box 172  
 Sydney NSW 2001

## CONTACT US

Brookfield has personnel to assist with all investor and financial adviser enquiries.

There are several ways of accessing information about the fund and providing feedback to Customer Service:

### By post

GPO Box 172  
 Sydney NSW 2001

### By phone

1800 570 000 (within Australia)  
 +61 2 9322 2000 (outside Australia)

### By fax

+61 2 9322 2001

### By email

[clientenquiries@au.brookfield.com](mailto:clientenquiries@au.brookfield.com)

### By internet

The Brookfield website provides investors with up-to-date information on all funds as well as reports, media releases, fund performance, unit price information and corporate governance guidelines.

[www.au.brookfield.com](http://www.au.brookfield.com)



# BROOKFIELD PRIME PROPERTY FUND

ARSN 110 096 663

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## Financial Report for the year ended 30 June 2015

Responsible Entity  
**Brookfield Capital  
Management Limited**  
ACN 094 936 866  
AFSL 223809

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# Directory

For the year ended 30 June 2015

**Responsible Entity**

Brookfield Capital Management Limited  
Level 22, 135 King Street  
Sydney NSW 2000  
Telephone: +61 2 9322 2000  
Facsimile: +61 2 9322 2001

**Directors of Brookfield Capital Management Limited**

F. Allan McDonald  
Barbara Ward  
Shane Ross (Resigned as Alternate Director for Russell Proutt and appointed Director on 6 May 2015)  
Russell Proutt (Resigned as Director on 6 May 2015)

**Company Secretary of Brookfield Capital Management Limited**

Neil Olofsson

**Registered Office of Brookfield Capital Management Limited**

Level 22, 135 King Street  
Sydney NSW 2000  
Telephone: +61 2 9322 2000  
Facsimile: +61 2 9322 2001

**Custodian**

Brookfield Funds Management Limited  
Level 22, 135 King Street  
Sydney NSW 2000  
Telephone: +61 2 9322 2000  
Facsimile: +61 2 9322 2001

**Stock Exchange**

The Fund is listed on the Australian Securities Exchange (ASX Code: BPA). The Home Exchange is Sydney.

**Location of Share Registry**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Telephone: +61 2 8280 7111  
Facsimile: +61 2 9287 0303

**Auditor**

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Telephone: +61 2 9322 7000  
Facsimile: +61 2 9322 7001

# Directors' Report

For the year ended 30 June 2015

## Introduction

The Directors of Brookfield Capital Management Limited (ABN 32 094 936 866), the Responsible Entity of Brookfield Prime Property Fund (ARSN 110 096 663) (Fund), present their report together with the financial statements of the Consolidated Entity, being the Fund, its subsidiaries and the Consolidated Entity's interest in associates for the year ended 30 June 2015 and the Independent Auditor's Report thereon.

The Fund was constituted on 16 July 2004 and was registered as a Managed Investment Scheme on 30 July 2004.

## Responsible Entity

The Responsible Entity of the Fund is Brookfield Capital Management Limited (BCML). BCML became the Responsible Entity on 5 July 2005. The registered office and principal place of business of the Responsible Entity is Level 22, 135 King Street, Sydney NSW 2000.

## Directors

The following persons were Directors of the Responsible Entity at any time during or since the end of the financial year:

Name	Capacity
F. Allan McDonald	Non-Executive Independent Chairman
Barbara Ward	Non-Executive Independent Director
Shane Ross (Resigned as Alternate Director for Russell Proutt and appointed Director on 6 May 2015)	Executive Director / Alternate Director
Russell Proutt (Resigned as Director on 6 May 2015)	Executive Director

## Information on Directors

### F. Allan McDonald (BEcon, FCPA, FAIM, FGIA), Non-Executive Independent Chairman

Allan was appointed the Non-Executive Independent Chairman of BCML on 1 January 2010 and also performs that role for Brookfield Funds Management Limited (BFML). Allan has had extensive experience in the role of Chairman and is presently associated with a number of companies as a consultant and Company Director. BCML is also the Responsible Entity for listed fund Multiplex European Property Fund (MUE). BFML is the Responsible Entity for the listed Multiplex SITES Trust. Allan's other directorship of listed entities is Astro Japan Property Management Limited (Responsible Entity of Astro Japan Property Trust) (appointed February 2005). During the past 3 years Allan has also served as a director of Billabong International Limited (appointed July 2000 – October 2012) and Brookfield Office Properties Inc. (May 2011 – June 2014).

### Barbara Ward, AM (BEcon, MPolEcon, MAICD), Non-Executive Independent Director

Barbara was appointed as a Non-Executive Independent Director of BCML on 1 January 2010 and also performs that role for BFML. Barbara has gained extensive business and finance experience through her role as Chief Executive Officer of Ansett Worldwide Aviation Services, as General Manager Finance for the TNT Group and as a Senior Ministerial Advisor. BCML is also the Responsible Entity for listed fund MUE. BFML is the Responsible Entity for the listed Multiplex SITES Trust. Barbara is a Director of Qantas Airways Limited and Caltex Australia Limited. During the past 3 years Barbara has also served as Chair of Essential Energy (June 2001 – June 2012) and Director of Essential Energy, Ausgrid, Endeavour Energy (July 2012 – December 2012).

### Shane Ross (BBus), Executive Director/Alternate Director

Shane is the Group General Manager of Treasury for Brookfield Australia Investments Limited and was appointed as an Executive Director of BCML on 16 May 2011, resigned on 28 February 2014 and was appointed Alternate Director for Russell on that date. Subsequently Shane resigned as Alternate Director on 6 May 2015 and appointed as an Executive Director on that date. BCML is also the Responsible Entity for listed fund MUE. Shane is also a director of BFML which is the Responsible Entity of Multiplex SITES Trust. Shane joined the organisation in 2003 following a background in banking and has over 20 years of experience in treasury and finance within the property industry.

## Information on Company Secretary

### Neil Olofsson

Neil has over 19 years of international company secretarial experience and has been with the Brookfield Australia group since 2005.

# Directors' Report Continued

For the year ended 30 June 2015

## Directors' interests

The following table sets out each Director's relevant interest in the units, debentures, interests in registered schemes and rights or options over such instruments issued by the entities within the Consolidated Entity and other related bodies corporate as at the date of this report:

Director	Brookfield Prime Property Fund units held
F. Allan McDonald	–
Barbara Ward	–
Shane Ross	–

No options are held by or have been issued to the Directors.

Russell Proutt resigned as Director on 6 May 2015.

## Policy on hedging equity incentive schemes

The Board of BCML do not receive any equity-based remuneration, and therefore will not be engaging in any hedge arrangements in relation to their remuneration.

A copy of the Security Trading Policy is available on the Brookfield Australia group website at [www.au.brookfield.com](http://www.au.brookfield.com).

## Directors' meetings

Director	Board Meetings		Audit Committee Meetings		Board Risk and Compliance Committee Meetings	
	A	B	A	B	A	B
F. Allan McDonald	6	6	2	2	2	2
Barbara Ward	6	6	2	2	2	2
Shane Ross	1	1	n/a	n/a	n/a	n/a
Russell Proutt	3	3	n/a	n/a	n/a	n/a

A – Number of meetings attended.

B – Number of meetings held during the time the Director held office during the year, or the number of meetings held that the Alternate Director was eligible to attend during the year.

## Committee meetings

There were no Board committee meetings held during the year other than those stated above.

## Principal activities

The principal activity of the Consolidated Entity is the investment in a portfolio of CBD office assets and listed property trusts.

## Review of operations

The Consolidated Entity has recorded a net profit of \$34,307,000 for the year ended 30 June 2015 (2014: net profit \$19,940,000). The reported net profit includes \$2,660,000 in net unrealised losses on revaluations of the investment property portfolio directly held by the Consolidated Entity (2014: net unrealised gains of \$1,310,000). The Consolidated Entity's associates recognised a net unrealised increase on underlying investment properties, of which the Consolidated Entity's share was \$26,484,000 (2014: net unrealised profit of \$5,214,000).

Some of the significant events during the year are as follows:

- total revenue and other income of \$96,063,000 (2014: \$81,578,000);
- earnings per unit (EPU) of 69.97 cents (2014: 40.67 cents);
- net assets of \$352,930,000 as at 30 June 2015 (2014: \$312,500,000) and net assets per unit of \$7.20 (2014: \$6.37);
- interest rate swap liability of \$17,962,000 (2014: \$27,996,000). The decrease in fair value of \$10,034,000 from June 2014, has increased the net assets of the Fund by 20.46 cents per unit.
- property portfolio value of \$950,175,000 as at 30 June 2015 (2014: \$894,750,000), including \$23,824,000 in net increase in revaluations of investment properties recorded during the year (including investment properties held by associates) (2014: net gain of \$6,524,000); and
- portfolio occupancy at 96% (2014: 99%) with a weighted average lease expiry by income and by ownership of 4.45 years as at 30 June 2015 (2014: 4.70 years).

The strategy of the Fund is to invest in prime commercial office properties in Australia. Consistent with the strategy, the Fund continues to review opportunities that arise in the sector to grow the Fund through the acquisition of quality assets.

# Directors' Report Continued

For the year ended 30 June 2015

## Corporate governance

BCML, in its capacity as Responsible Entity for the Funds, is required under the ASX Listing Rules to prepare a Corporate Governance Statement (the Statement) and include the Statement in its annual financial report.

The Statement discloses the extent to which BCML has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments (3rd edition), (the ASX Principles) during the reporting period.

The ASX Principles are guidelines for businesses which set out eight core principles the Corporate Governance Council believes lie behind good corporate governance. BCML is committed to maintaining high standards of corporate governance.

As a wholly owned subsidiary of Brookfield Australia Investments Limited (BAIL), BCML will, wherever possible, make use of the existing governance framework and expertise within the Brookfield Australia Investments Group (the Group) as it applies to the Fund's operations and will continue to review and update its governance practices and policies from time to time.

The Principles have been adopted by BCML, where appropriate, to ensure stakeholder interests are protected, however, some of the Principles are neither relevant nor practically applicable to the investment structure of the Fund. This Statement outlines BCML's main governance policies and practices, and the extent of its compliance with the ASX Principles for the reporting period 1 July 2014 to 30 June 2015.

### Principle 1: Lay solid foundations for management and oversight

It is the Board's responsibility to ensure that the foundations for management and oversight of the Fund are established and documented appropriately.

#### Role of the Board & Senior Executives

The Board identifies the role of the Board, its committees and the powers reserved to the Board in a charter. The Board Charter reserves the following powers for the Board:

- approval of risk management strategy;
- approval of financial statements and any significant changes to accounting policies;
- approval of distribution payments;
- approval and monitoring of major investments or divestitures and strategic commitments;
- consideration of recommendations from the Audit Committee and Board Risk and Compliance Committee; and
- any matter which, according to law, is expressly reserved for Board determination.

A copy of the Board Charter is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

In addition, the Board is responsible for:

- monitoring the implementation of the financial and other objectives of the Fund;
- overseeing and approving the risk, control and accountability systems;
- monitoring compliance with legal, constitutional and ethical standards; and
- ensuring there is effective communication with unitholders and other stakeholders of the Fund.

On appointment, each independent director of the Board receives a letter of appointment which details the key terms and expectations of their appointment.

#### Information regarding election and re-election of director candidates

BAIL and BCML carefully considers the character, experience, education and skillset, as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks on the suitability of the candidate, prior to their election.

The nomination and appointment of Directors is undertaken by BAIL in consultation with the Board. This practice is in accordance with BCML's Charter and the *Corporations Act 2001*.

#### Written contracts of appointment

In addition to being set out in the Charter, each independent director of the Board receives a letter of appointment which details the key terms and expectations of their appointment. The Management team responsible for the operation of the Fund and BCML are employees of the Group.

#### Company Secretary

All Directors have access to the Company Secretary. The Company Secretary is accountable to the Board on all governance matters and supports the Board by monitoring and maintaining Board policies and procedures, and coordinating the timely completion and dispatch of the Board agenda and briefing material. The appointment and removal of the Company Secretary is a matter for BAIL in consultation with the Board.



# Directors' Report Continued

For the year ended 30 June 2015

## Corporate governance *continued*

### Principle 1: Lay solid foundations for management and oversight *continued*

#### Diversity policy

The ASX Corporate Governance Council recommends that Companies establish a policy concerning diversity. BCML is not part of an ASX listed group of companies and does not directly employ staff. As a result, BCML has not developed a policy concerning diversity.

#### Evaluation of the performance of the Board, its Committees and individual Directors

The Board is responsible for reviewing and monitoring its performance and the performance of its committees and directors. The Board undertakes an annual self-evaluation of its performance. The evaluation is conducted by way of a survey of each Director, followed by an analysis and discussion of the results. As part of the review, consideration is given to the existing skills and competency of the Directors to ensure there is an appropriate mix of skills for managing BCML and the Fund.

#### Process for evaluating the performance of senior executives

The Management team responsible for the operation of the Fund and BCML are employees of the Group and are subject to the Group's performance evaluation process.

All new employees, including senior executives, attend a formal induction which provides an overall introduction to the various business units within the Group.

### Principle 2: Structure the Board to add value

#### Nomination committee

The ASX Corporate Governance Council recommends that boards establish a nomination committee to oversee the selection and appointment of directors. Ultimate responsibility for director selection rests with the full board.

BCML does not have a nomination committee. The nomination and appointment of Directors is undertaken by BAIL in consultation with the Board. This practice is in accordance with BCML's Charter and the *Corporations Act 2001*.

#### Board skill matrix

The Board considers that collectively, the Directors have an appropriate mix of skills, experience and expertise which allow it to meet the Fund's objectives. The composition of the Board is subject to continuous review. Profiles of each of the Directors may be found on page 4.

#### Disclose independence and length of service of Directors

The table below sets out the details of each of the Directors including their independent status and length of tenure. The interests of the Directors may be found on page 5.

Name	Position held	Independent (Yes/No)	Date appointed to the Board
F. Allan McDonald	Non-Executive Independent Chairman	Yes	1 January 2010
Barbara Ward	Non-Executive Independent Director	Yes	1 January 2010
Shane Ross	Executive Director	No	6 May 2015
Russell Proutt	Executive Director	No	Resigned 6 May 2015

#### Majority of Independent Directors

Throughout the reporting period the Board had a majority of Independent Directors. The independent status of those Directors was determined using the criteria set out in Recommendation 2.4 of the ASX Principles.

#### Chairperson Independent and not CEO

The ASX Corporate Governance Council recommends that the Chairperson of the Board be independent. Allan McDonald, the Chairman of the Board, is an independent, non-executive Director.

The ASX Corporate Governance Council recommends that the roles of Chairman and Chief Executive Officer be split and not exercised by the same individual.

Allan McDonald, the Chairman of the Board, is an independent, non-executive Director.

#### Induction and education

An induction programme for Directors is facilitated by the Company Secretary. The programme provides new directors with an understanding of the financial, strategic, operational and risk management position of BCML, the Fund and the Group.

# Directors' Report Continued

For the year ended 30 June 2015

## Corporate governance continued

### Principle 3: Promote ethical and responsible decision making

The Brookfield Group has a Code of Business Conduct and Ethics (the Code) which sets out the requirements for workplace and human resource practices, risk management and legal compliance.

#### Code of business conduct and ethics

The Board acknowledges that all employees of the Group and Directors of BCML are subject to the Code and are required to act honestly and with integrity. The Code is designed to ensure that all directors, officers and employees conduct activities with the highest standards of honesty and integrity and in compliance with all legal and regulatory requirements. The Code is aligned to the Group's core values of teamwork, integrity and performance and is fully supported by the Board.

A copy of the Code is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

### Principle 4: Safeguard integrity in corporate reporting

The approach adopted by the Board is consistent with the Principle. The Board requires the Chief Executive Officer and the Chief Financial Officer to provide a written statement that the financial statements of the Fund present a true and fair view, in all material aspects, of the financial position and operational results.

#### Audit Committee

The Board has established an Audit Committee to oversee the integrity of the financial reporting controls and procedures used by BCML when acting in its capacity as the Responsible Entity.

The Audit Committee is responsible for:

- overseeing financial reporting to ensure balance, transparency and integrity; and
- evaluating and monitoring the effectiveness of the external audit function.

The members of the Audit Committee throughout the reporting period were:

Name	Position	Number of Meetings in Year	Attendance
Barbara Ward	Chairman	2	2
F. Allan McDonald	Member	2	2

The members of the Audit Committee are not substantial shareholders of BCML or the Fund or officers of, or otherwise associated directly with, a substantial shareholder of BCML or the Fund and therefore are deemed independent.

With only two members, the Audit Committee does not satisfy all the requirements of ASX Recommendation 4.1 which suggests that an audit committee should have 'at least three members'. The structure of the Audit Committee satisfied the three other requirements of Recommendation 4.1

BCML currently has three Directors, and the Board considers that during the reporting period the Audit Committee was of sufficient size, independence and technical expertise to discharge its mandate effectively.

#### Charter of the Audit Committee

The Audit Committee has adopted a formal Charter which sets out their responsibilities with respect to financial reporting, external audit (including procedures regarding appointment, removal of and term of engagement with the external auditor), and performance evaluation.

A copy of the Audit Committee's Charter is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

#### CEO and CFO certification of financial instruments

The Board has received declarations from the Executive Director and Chief Financial Officer that the sign off of the financial statements is based upon a sound system of risk management and that the internal compliance and control systems are operating efficiently in all material respects in relation to financial reporting risks.

#### External auditors available at AGM

BCML is not a public listed entity on the ASX and is not required to hold an AGM under the *Corporations Act 2001*. Listed trusts established in Australia as managed investment schemes are not required by the *Corporations Act 2001* to have an AGM.

BCML's external audit function is performed by Deloitte Touche Tohmatsu (Deloitte).

# Directors' Report Continued

For the year ended 30 June 2015

## Corporate governance continued

### Principle 5: Make timely and balanced disclosure

#### Disclosure policy

BCML is committed to complying with the continuous disclosure obligations contained in the ASX Listing Rules. The Board has adopted a Continuous Disclosure Policy which is designed to ensure that all unitholders have equal and timely access to material information concerning the Fund. The Continuous Disclosure Policy applies to all Directors, managers and employees involved in the operation of the Fund and BCML.

The Company Secretary is primarily responsible for the Fund's compliance with its continuous disclosure obligations and maintaining the Continuous Disclosure Policy. The Company Secretary is also the liaison between the Board and the ASX.

A copy of the Continuous Disclosure Policy is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

### Principle 6: Respect the rights of the Fund's unitholders

#### Information on website

Up to date information of the Funds, including any continuous disclosure notices given by the Fund, financial reports and distribution information is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

#### Investor relations program

BCML's communication strategy is incorporated into the Continuous Disclosure Policy.

BCML is committed to timely and ongoing communication with the Fund's unitholders. The Annual Report also provides an update to investors on major achievements and the financial results of the Fund.

#### Facilitate participation at meetings of unitholders

BCML is not a public listed entity on the ASX and is not required to hold an AGM under the *Corporations Act 2001*. Listed trusts established in Australia as managed investment schemes are not required by the *Corporations Act 2001* to have an AGM.

#### Facilitate electronic communication

BCML provides its investors the option to receive communications from, and send communication to, the Company and the share registry electronically.

### Principle 7: Recognise and manage risk

An important role of BCML is to effectively manage the risks inherent in its business while supporting the performance and success of the Fund. BCML is committed to ensuring that it has a robust system of risk oversight and management and internal controls in compliance with ASX Principle 7.

#### Risk and Compliance Committee

The Board has delegated responsibility for the oversight of BCML's compliance program to a Board Risk and Compliance Committee.

The members of the Board Risk and Compliance Committee throughout the financial period were:

Name	Position	Number of Meetings in Year	Attendance
Barbara Ward	Chairman	2	2
F. Allan McDonald	Member	2	2

The Board Risk and Compliance Committee is governed by a formal Charter which is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

The Board has adopted a Risk Management Strategy (RMS) and has assigned accountability and responsibility for the management of risk to Management. The RMS describes the key elements of the risk management framework that relates to the delivery of financial services by BCML as an AFS Licensee.

In addition to the RMS, Risk Registers are used by management to record and manage potential sources of material business risks that could impact upon BCML or the Fund.

#### Annual risk review

The Board is ultimately responsible for overseeing and managing risks to BCML or the Fund. Management reports to the Board on risk management and compliance via a Board Risk and Compliance Committee. Financial risks are managed by the Audit Committee. Designated compliance staff assist BCML by ensuring that a robust system of compliance and risk management is in place. The Compliance Manager for the Group is responsible for reviewing and monitoring the efficiency of compliance systems on an ongoing basis. The Group has an internal audit function which may review aspects of BCML's business and the Fund as part of its annual program.

A summary of BCML's policies on risk oversight and management is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

# Directors' Report Continued

For the year ended 30 June 2015

## Corporate governance *continued*

### Principle 7: Recognise and manage risk *continued*

#### Internal audit

BCML has an internal audit function that is independent of management. The internal audit function is overseen by the Risk & Compliance Committee.

The external audit function is performed by Deloitte Touche Tohmatsu (Deloitte).

#### Sustainability risks

Environmental stewardship is a major component of Brookfield's strategic business plan. Sustainability is a high priority to Brookfield and is treated as a key business objective, along with revenue growth and risk management. Every decision we make as a company balances both our fiscal and our environmental responsibilities.

A copy of the Sustainability Report is available on the Brookfield Australia website at [www.au.brookfield.com](http://www.au.brookfield.com).

### Principle 8: Remunerate fairly and responsibly

#### Remuneration committee

The ASX Corporate Governance Council suggests that the Board should establish a dedicated Remuneration Committee. The Directors receive a fee for service and BCML does not directly employ staff, therefore no remuneration committee has been established.

Independent and non-executive Directors receive fees for serving as Directors. Director's fees are not linked to performance of BCML or the Fund.

### Interests of the Responsible Entity

#### Management fees

For the year ended 30 June 2015, the Consolidated Entity incurred \$6,258,000 in management fees to the Responsible Entity (2014: \$6,068,000). \$1,566,000 of management fees remain payable as at year end (2014: \$1,484,000).

#### Investments held

The following interests were held by related entities in the Consolidated Entity during the financial year:

- Brookfield BPPF Investments Pty Ltd (formerly Multiplex Colt Investments Pty Ltd) as trustee for Brookfield BPPF Investments Trust (formerly Multiplex Colt Investments Trust) holds 10,893,945 units or 22.2% of the Fund at year end (2014: 10,893,945 units or 22.2%);
- Brookfield Securities (Australia) Pty Ltd holds 2,663,073 units or 5.4% of the Fund at year end (2014: 2,663,073 units or 5.4%); and
- Brookfield Capital Securities Limited as trustee of Brookfield Multiplex PPF Investment No 2 Trust holds 25,895,419 units or 52.8% of the Fund at year end (2014: 25,895,419 units or 52.8%).

### Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year other than those disclosed in this report or in the financial statements.

### Events subsequent to reporting date

There are no matters or circumstances which have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

### Likely developments

Other than the matters already included in the Directors' Report, information on likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations have not been included in this report because the Directors believe that to do so would be likely to result in unreasonable prejudice to the Consolidated Entity.

### Environmental regulation

The Consolidated Entity has systems in place to manage its environmental obligations. Based upon the results of inquiries made, the Responsible Entity is not aware of any significant breaches or non-compliance issues during the year covered by this report.

# Directors' Report Continued

For the year ended 30 June 2015

## Distributions

Distributions declared to unitholders were as follows:

	Cents per unit	Total amount \$'000	Date of payment
<b>Ordinary units</b>			
September 2014 distribution	2.0	981	31 October 2014
December 2014 distribution	2.0	980	30 January 2015
March 2015 distribution	2.0	981	30 April 2015
June 2015 distribution	2.0	980	31 July 2015
<b>Total distribution for the year ended 30 June 2015</b>	<b>8.0</b>	<b>3,922</b>	
<b>Ordinary units</b>			
September 2013 distribution	2.0	981	31 October 2013
December 2013 distribution	2.0	980	31 January 2014
March 2014 distribution	2.0	981	30 April 2014
June 2014 distribution	2.0	980	31 July 2014
<b>Total distribution for the year ended 30 June 2014</b>	<b>8.0</b>	<b>3,922</b>	

Distributions declared for the years ended 30 June 2015 and 30 June 2014 were declared out of the Consolidated Entity's realised revenues and expenses.

## Indemnification and insurance of officers and auditors

BAIL has entered into deeds of access and indemnity with each of its Directors, Company Secretary and other nominated Officers. The terms of the deeds are in accordance with the provisions of the *Corporations Act 2001* and will indemnify these executives (to the extent permitted by law) for up to seven years after serving as an Officer against legal costs incurred in defending civil or criminal proceedings against the executives, except where proceedings result in unfavourable decisions against the executives, and in respect of reasonable legal costs incurred by the executives in good faith in obtaining legal advice in relation to any issue relating to the executives being an officer of the BAIL group, including BCML.

Under the deeds of access and indemnity, BAIL has agreed to indemnify these persons (to the extent permitted by law) against:

- liabilities incurred as a director or officer of BCML or a company in the group, except for those liabilities incurred in relation to the matters set out in section 199A(2) of the *Corporations Act 2001*; and
- reasonable legal costs incurred in defending an action for a liability or alleged liability as a director or officer, except for costs incurred in relation to the matters set out in section 199A(3) of the *Corporations Act 2001*.

BAIL has also agreed to effect, maintain and pay the premium on a directors' and officers' liability insurance policy. This obligation is satisfied by BAIL being able to rely upon Brookfield's global directors' and officers' insurance policy, for which it pays a portion of the premium.

As is usual, this policy has certain exclusions and therefore does not insure against liabilities arising out of matters including but not limited to:

- fraudulent, dishonest or criminal acts or omissions and improper personal profit or advantage;
- violation of *US Securities Act of 1933*;
- losses for which coverage under a different kind of insurance policy is readily available such as, for example, liability insurance, employment practices liability and pollution liability (there can be limited coverage for some of these exposures); and
- claims made by a major shareholder (threshold is ownership of 10% or greater).

The obligation to effect, maintain and pay the premium on a policy continues for a period of seven years after the director or officer has left office to the extent such coverage is available with reasonable terms in the commercial insurance marketplace.

The group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of BCML or of any related body corporate against a liability incurred as such an officer or auditor.

# Directors' Report Continued

For the year ended 30 June 2015

## Non-audit services

All amounts paid to Deloitte during the current and prior years for audit, review and regulatory services are disclosed in Note 7.

No fees for non-audit services were incurred by the Consolidated Entity to Deloitte during the current year (2014: nil).

## Remuneration report

### a Remuneration of Directors and Key Management Personnel of the Responsible Entity

The Consolidated Entity does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and the Responsible Entity is considered the Key Management Personnel (KMP) of the Fund and Consolidated Entity. The Directors of the Responsible Entity are KMP of that entity and their names are:

F. Allan McDonald

Barbara Ward

Shane Ross (Resigned as Alternate Director for Russell Proutt and appointed Director on 6 May 2015)

Russell Proutt (Resigned as Director on 6 May 2015)

The Responsible Entity is entitled to a management fee which is calculated as a proportion of gross asset value. Details of the fees are provided below.

No compensation is paid directly by the Consolidated Entity to Directors or to any of the KMP of the Responsible Entity. Since the end of the financial year, no Director or KMP of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Responsible Entity with a Director or KMP, or with a firm of which the Director or KMP is a member, or with an entity in which the Director or KMP has a substantial interest, except at terms set out in the Fund Constitution.

### Loans to Directors and Key Management Personnel of the Responsible Entity

The Consolidated Entity has not made, guaranteed or secured, directly or indirectly, any loans to the Directors and KMP or their personally related entities at any time during the year.

### Other transactions with Directors and Specified Executives of the Responsible Entity

From time to time, Directors and KMP or their personally-related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

No Director or KMP has entered into a contract for services with the Responsible Entity during the year and there were no contracts involving Directors or KMP subsisting at year end.

### b Management fees

The management fees incurred by the Consolidated Entity to the Responsible Entity for the year ended 30 June 2015 were \$6,258,000 (2014: \$6,068,000).

## Rounding of amounts

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

## Lead auditor's independence declaration under Section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the year ended 30 June 2015.

Dated at Sydney this 21st day of August 2015.

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the *Corporations Act 2001*.



**Shane Ross**

Director

Brookfield Capital Management Limited

# Auditor's Independence Declaration

For the year ended 30 June 2015

**Deloitte.**

13

Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1220 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
www.deloitte.com.au

The Board of Directors  
Brookfield Capital Management Limited  
(as Responsible Entity for Brookfield Prime Property Fund)  
Level 22, 135 King Street  
Sydney NSW 2000

21 August 2015

Dear Directors

## **BROOKFIELD PRIME PROPERTY FUND**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Brookfield Capital Management Limited as the Responsible Entity of Brookfield Prime Property Fund.

As lead audit partner for the audit of the financial statements of Brookfield Prime Property Fund for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

*DELOITTE TOUCHE TOHMATSU*  
DELOITTE TOUCHE TOHMATSU



AG Collinson  
Partner  
Chartered Accountants

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2015

		Consolidated	
	Note	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
<b>Revenue and other income</b>			
Property rental income		39,493	44,444
Share of net profit of investments accounted for using the equity method	6	56,029	34,775
Net gain on revaluation of investment properties	11	–	1,310
Interest income		535	404
Other income		6	645
<b>Total revenue and other income</b>		<b>96,063</b>	<b>81,578</b>
<b>Expenses</b>			
Property expenses		11,197	11,213
Finance costs		41,253	43,999
Net loss on revaluation of investment properties	11	2,660	–
Management fees		6,258	6,068
Other expenses		388	358
<b>Total expenses</b>		<b>61,756</b>	<b>61,638</b>
<b>Net profit for the year</b>		<b>34,307</b>	<b>19,940</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Changes in cash flow hedge reserve	16	10,033	8,543
Changes in fair value of available for sale financial assets	16	12	(5)
<b>Other comprehensive income for the year</b>		<b>10,045</b>	<b>8,538</b>
<b>Total comprehensive income for the year</b>		<b>44,352</b>	<b>28,478</b>
<b>Net profit attributable to ordinary unitholders</b>		<b>34,307</b>	<b>19,940</b>
<b>Total comprehensive income attributable to ordinary unitholders</b>		<b>44,352</b>	<b>28,478</b>
<b>Earnings per unit</b>			
Basic and diluted earnings per ordinary unit (cents)	8	69.97	40.67

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.



# Consolidated Statement of Financial Position

As at 30 June 2015

	Note	Consolidated 2015 \$'000	2014 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		17,117	23,585
Trade and other receivables	10	3,315	1,303
<b>Total current assets</b>		<b>20,432</b>	<b>24,888</b>
<b>Non-current assets</b>			
Investment properties	11	482,300	458,500
Investments accounted for using the equity method	6	463,758	433,863
<b>Total non-current assets</b>		<b>946,058</b>	<b>892,363</b>
<b>Total assets</b>		<b>966,490</b>	<b>917,251</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	24,722	9,971
Fair value of financial derivatives	14	17,962	–
<b>Total current liabilities</b>		<b>42,684</b>	<b>9,971</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	14	570,876	566,784
Fair value of financial derivatives	14	–	27,996
<b>Total non-current liabilities</b>		<b>570,876</b>	<b>594,780</b>
<b>Total liabilities</b>		<b>613,560</b>	<b>604,751</b>
<b>Net assets</b>		<b>352,930</b>	<b>312,500</b>
<b>Equity</b>			
Units on issue	15	302,047	302,047
Reserves	16	(289)	(10,334)
Undistributed profits	17	51,172	20,787
<b>Total equity</b>		<b>352,930</b>	<b>312,500</b>

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2015

Consolidated Entity	Attributable to unitholders of the Fund			Total \$'000
	Ordinary units \$'000	Undistributed profits/(losses) \$'000	Reserves \$'000	
<b>Opening equity – 1 July 2014</b>	<b>302,047</b>	<b>20,787</b>	<b>(10,334)</b>	<b>312,500</b>
Changes in cash flow hedge reserve	–	–	10,033	<b>10,033</b>
Changes in fair value of available for sale financial assets	–	–	12	<b>12</b>
<b>Other comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>10,045</b>	<b>10,045</b>
Net profit for the year	–	34,307	–	<b>34,307</b>
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>34,307</b>	<b>10,045</b>	<b>44,352</b>
<b>Transactions with unitholders in their capacity as unitholders:</b>				
Distributions declared	–	(3,922)	–	<b>(3,922)</b>
<b>Total transactions with unitholders in their capacity as unitholders</b>	<b>–</b>	<b>(3,922)</b>	<b>–</b>	<b>(3,922)</b>
<b>Closing equity – 30 June 2015</b>	<b>302,047</b>	<b>51,172</b>	<b>(289)</b>	<b>352,930</b>

Consolidated Entity	Attributable to unitholders of the Fund			Total \$'000
	Ordinary units \$'000	Undistributed profits/(losses) \$'000	Reserves \$'000	
<b>Opening equity – 1 July 2013</b>	<b>302,047</b>	<b>4,769</b>	<b>(18,872)</b>	<b>287,944</b>
Change in cash flow hedge reserve	–	–	8,543	<b>8,543</b>
Changes in fair value of available for sale financial assets	–	–	(5)	<b>(5)</b>
<b>Other comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>8,538</b>	<b>8,538</b>
Net profit for the year	–	19,940	–	<b>19,940</b>
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>19,940</b>	<b>8,538</b>	<b>28,478</b>
<b>Transactions with unitholders in their capacity as unitholders:</b>				
Distributions declared	–	(3,922)	–	<b>(3,922)</b>
<b>Total transactions with unitholders in their capacity as unitholders</b>	<b>–</b>	<b>(3,922)</b>	<b>–</b>	<b>(4,777)</b>
<b>Closing equity – 30 June 2014</b>	<b>302,047</b>	<b>20,787</b>	<b>(10,334)</b>	<b>312,500</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2015

	Note	Consolidated Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		40,116	47,149
Cash payments in the course of operations		(16,664)	(19,449)
Interest received		549	400
Financing costs paid		(37,295)	(37,196)
<b>Net cash flows used in operating activities</b>	20	<b>(13,294)</b>	<b>(9,096)</b>
<b>Cash flows from investing activities</b>			
Payments for additions in investment properties		(12,307)	(6,088)
Proceeds from sale of ASX listed property trusts		–	41
Distributions received from investments in ASX listed property trusts		6	8
Distributions received from associates		23,049	30,629
<b>Net cash flows from investing activities</b>		<b>10,748</b>	<b>24,590</b>
<b>Cash flows from financing activities</b>			
Debt establishment fees paid		–	(2,537)
Proceeds from interest bearing liabilities		–	520,000
Repayments of interest bearing liabilities		–	(517,660)
Distributions paid		(3,922)	(3,922)
<b>Net cash flows used in financing activities</b>		<b>(3,922)</b>	<b>(4,119)</b>
Net (decrease)/increase in cash and cash equivalents		(6,468)	11,375
Cash and cash equivalents at beginning of year		23,585	12,210
<b>Cash and cash equivalents at 30 June</b>		<b>17,117</b>	<b>23,585</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2015

## 1 Reporting entity

Brookfield Prime Property Fund (Fund) is an Australian registered managed investment scheme under the *Corporations Act 2001*. Brookfield Capital Management Limited (BCML), the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The consolidated financial statements of the Fund as at and for the year ended 30 June 2015 comprise the Fund, its subsidiaries and the Consolidated Entity's interest in associates.

## 2 Basis of preparation

### a Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements of the Consolidated Entity and the Fund comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB). For the purpose of preparing the consolidated financial statements the Fund is a for profit entity.

The financial statements were authorised for issue by the Directors on this 21st day of August 2015.

### b Basis of measurement

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

- derivative financial instruments which are measured at fair value;
- investment properties which are measured at fair value;
- equity accounted investments which are measured using the equity method;
- available for sale financial assets which are measured at fair value; and
- interest bearing liabilities which are measured at amortised cost.

The methods used to measure the above are discussed further in Note 3.

The consolidated financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

### c Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is provided in investment properties (Note 11), financial instruments (Note 18) and non-financial assets and liabilities recognised at fair value (Note 19).

### d New and amended standards adopted

The following new and amended standards have been applied in preparing this financial report:

AASB 1031 *Materiality (December 2013)* is an interim standard that cross references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contains guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed AASB 1031 will be withdrawn.

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* addresses the disclosure of information about the recoverable amount of impaired assets if that value is based on fair value less cost of disposal.

AASB 2013-5 *Amendments to Australian Accounting Standard – Investment Entities* provides an exemption from consolidation of subsidiaries under AASB 10 *Consolidated Financial Statements* for entities which meet the definition of an "investment entity". Such entities would measure their investment in particular subsidiaries at fair value through profit and loss in accordance with AASB 9 *Financial Instruments* or AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Part B* makes changes to particular Australian Accounting Standards to delete reference to AASB 1031.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 2 Basis of preparation continued

### d New and amended standards adopted continued

The adoption of the new and amended standards has resulted in amendments to disclosures but have not impacted the financial results of the Consolidated Entity.

### e Going concern

As at 30 June 2015, the Consolidated Entity has a net current liability deficit of \$22,252,000. This is largely as a result of the fair value of financial derivatives of \$17,962,000 being classified as a current liability at current year end on the basis that the majority of the remaining derivative fair value will be realised within the next 12 months despite the expiration date of July 2016; and the accrual of capital expenditure on the properties, in particular for 108 St Georges Terrace, Perth.

The Consolidated Entity intends to fund the above liabilities over the next 12 months by way of cash reserves, net operating income generated by the property assets in the normal course of business and, where further required, meet short term capital expenditure needs by way of the subordinated debt facility.

There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable and therefore it is considered appropriate for the financial statements to be prepared on a going concern basis.

## 3 Significant accounting policies

The significant policies set out below have been applied consistently to all periods presented in these financial statements.

### a Principles of consolidation

#### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Fund and its subsidiaries. Control of an entity is achieved where the Fund is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to significantly affect those returns through its power to direct the activities of the entity.

The results of the subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Consolidated Entity. The assets and liabilities of foreign controlled entities are translated into Australian dollars at rates of exchange current at the period end date, while their income and expenditure are translated at the exchange rate at the date of the transactions.

All intra-group transactions, balances, income and expenses, including unrealised profits arising from intra-group transactions, are eliminated in full in the consolidated financial statements. In the separate financial statements of the Fund, intra-group transactions (common control transactions) are generally accounted for by reference to the existing carrying value of the items. Where the transaction value of common control transactions differs from their carrying value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

In the Fund's financial statements, investments in controlled entities are carried at cost less impairment, if applicable.

Non-controlling interests in subsidiaries are identified separately from the Consolidated Entity's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Consolidated Entity's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Consolidated Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to unitholders.

When the Consolidated Entity loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 *Financial*

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

### 3 Significant accounting policies continued

#### a Principles of consolidation continued

*Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

##### Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates are accounted for using the equity method of accounting.

#### b Revenue recognition

Revenues are recognised at the fair value of the consideration received for the sale of goods and services, net of the amount of Goods and Services Tax (GST), rebates and discounts.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured.

The following specific criteria for the major business activities must also be met before revenue is recognised. Where amounts do not meet these recognition criteria, they are deferred and recognised in the period in which the recognition criteria are met.

##### Property rental revenue

Refer to operating leases (Note 3c).

##### Dividends and distributions

Revenue from dividends and distributions is recognised when the right of the Consolidated Entity to receive payment is established, which is generally when they have been declared.

Dividends and distributions received from associates reduce the carrying amount of the investment of the Consolidated Entity in that associate and are not recognised as revenue.

##### Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

##### Gain or losses on available for sale financial assets

Listed investments are classified as being available for sale and are stated at fair value, with any resulting gain or loss recognised directly in equity in the Consolidated Statement of Financial Position, except for impairment losses, which are recognised directly in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Where these investments are derecognised, the cumulative gain or loss previously recognised directly in equity in the Consolidated Statement of Financial Position is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The fair value of listed investments is the quoted exit price at the period end date.

#### c Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreements so as to reflect the risks and benefits incidental to ownership.

##### Operating leases

The fixed minimum rental revenues of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as income on a straight-line basis over the lease term, which is considered to best represent the time pattern in which benefits derived from the leased asset are diminished.

Contingent rents are recorded as income by the Consolidated Entity in the periods in which they are earned.

##### Leasing fees

Leasing fees in relation to the initial leasing of the property after a redevelopment are capitalised and amortised over the period to which the lease relates.

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are also capitalised and amortised over the lease term in proportion to the rental revenue recognised in each financial year.

##### Leasing incentives

Lease incentives which may take the form of up-front payments, contributions to certain lease costs, relocation costs and fit-outs and improvements are recognised in aggregate as a reduction of rental income over the lease term.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 3 Significant accounting policies continued

### d Expense recognition

#### Finance costs

Finance costs are recognised as expenses using the effective interest rate method, unless they relate to a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Where a qualifying asset exists, borrowing costs that are directly attributable to the acquisition, construction or production of the qualifying asset is capitalised as part of the cost of that asset.

Finance costs include:

- interest on bank overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance lease charges

#### Management fees

A base management fee calculated on the gross value of assets is payable to the Responsible Entity. The fee is payable by the Consolidated Entity quarterly in arrears.

#### Performance fee

The Responsible Entity is entitled to a performance fee where the performance of the Fund in any six month period ending 30 June or 31 December exceeds that of the UBS Commercial Property Accumulation (200 Index). The performance fee is calculated in two tiers as follows:

- a Tier 1 performance fee equal to 5.125% (including GST less any reduced input tax credits) of the amount by which the total return of the Fund exceeds the benchmark; and
- a Tier 2 performance fee which is applicable only where the Fund produces a total return out performance in excess of 1% per 6 month period above the benchmark. This tier of the fee is calculated as 15.375% (including GST less any reduced input tax credits) of the amount by which the total return of the Fund is in excess of 1% above the benchmark for the 6 month period (for a year, roughly equivalent to returns over the benchmark plus 2% per annum).

Any previous underperformance must be recovered before a performance fee becomes payable.

#### Other expenditure

Other expenses are recognised by the Consolidated Entity on an accruals basis.

### e Goods and services tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an expense item.

Receivables and payables are stated with the amount of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### f Income tax

Under current income tax legislation, the Fund is not liable for Australian income tax as unitholders are presently entitled at year end to the income of the trust estate calculated in accordance with the Trust Constitution and applicable tax law.

### g Cash and cash equivalents

For purposes of presentation in the Consolidated Statement of Cash Flows, cash includes cash balances, deposits at call with financial institutions and other highly liquid investments, with short periods to maturity, which are readily convertible to cash and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

### h Trade and other receivables

Trade debtors and other receivables, including equity receivable, are stated at their amortised cost using the effective interest rate method less any identified impairment losses. Impairment charges are brought to account as described in Note 3n. Non-current receivables are measured at amortised cost using the effective interest rate method.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

### 3 Significant accounting policies *continued*

#### i Investment property

An investment property is a property that is held to earn long-term rental yields and/or for capital appreciation.

An investment property acquired is initially recorded at its cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. An investment property is subsequently carried at fair value based on the principles outlined below.

Where the contracts of purchase include a deferred payment arrangement, amounts payable are recorded at their present value, discounted at the rate applicable to the Consolidated Entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

Investment property is stated at fair value at the reporting date.

The investment properties of the Consolidated Entity are internally valued at each reporting date. When internal valuations indicate a change from the carrying value between 2% and 5% the internal valuation will be adopted. The Consolidated Entity's policy is to obtain external valuations when internal valuations performed indicate the property value has changed by more than 5%, or whenever it is believed that the fair value of a property differs significantly from its carrying value, based on a material change to the assumptions and market conditions underlying the valuation. An external valuation is obtained at least every 3 years. All external valuations are adopted as the fair value of the investment property at the relevant reporting date.

The fair value of an investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, and is determined:

- without any deduction for transaction costs the entity may incur on sale or other disposal;
- reflecting market conditions at the reporting date;
- reflecting rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows that could be expected in respect of the property;
- assuming simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous;
- ensuring that there is no double-counting of assets or liabilities that are recognised as separate assets or liabilities; and
- without inclusion of future capital expenditure that will improve or enhance the property. The valuation does not reflect the related future benefits from this future expenditure.

Any gains or losses arising from a change in the fair value of an investment property is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

#### j Available for sale financial assets

Listed investments are classified as being available for sale. Available for sale financial assets are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value, with any resulting gain or loss recognised directly in equity. Where there is evidence of impairment in the value of the investment, usually through adverse market conditions, the impairment loss will be recognised directly in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Where listed investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.



# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 3 Significant accounting policies continued

### k Associates

The Consolidated Entity's investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Consolidated Entity has significant influence, but not control, over their financial and operating policies.

Under the equity method, investments in associates are carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the associates. After application of the equity method, the Consolidated Entity determines whether it is necessary to recognise any additional impairment loss with respect to the Consolidated Entity's net investment in the associates. The Consolidated Statement of Profit or Loss and Other Comprehensive Income reflects the Consolidated Entity's share of the results of operations of the associates.

When the Consolidated Entity's share of losses exceeds its interest in an associate, the Consolidated Entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Consolidated Entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Where there has been a change recognised directly in the associate's equity, the Consolidated Entity recognises its share of changes and discloses this in the Consolidated Statement of Changes in Equity.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Consolidated Entity's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the associate.

### l Derivative financial instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to interest rate risk from operational, financing and investment activities. The Consolidated Entity does not hold or issue derivative financial instruments for trading purposes.

The Consolidated Entity may designate certain hedging instruments, which includes derivatives, as cash flow hedges. At the inception of the hedge relationship, the relationship between the hedging instrument and the hedged item will be documented, along with the risk management objectives and the strategy for undertaking various hedge transactions. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the cash flow hedging reserve.

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the profit and loss in the periods when the hedged item is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. For cash flow hedges, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

### m Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, interest bearing liabilities and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated Entity becomes a party to the contractual provisions of the instrument.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

### 3 Significant accounting policies continued

#### m Non-derivative financial instruments continued

Financial assets are derecognised if the Consolidated Entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated Entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchase and sales of financial assets are accounted for at trade date, i.e. the date that the Consolidated Entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated Entity's obligations specified in the contract expire or are discharged or cancelled.

Accounting policies for cash and cash equivalents, trade and other receivables, trade and other payables, interest bearing liabilities and available for sale financial assets are discussed elsewhere within the financial statements.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### n Impairment

##### Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available for sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Any cumulative loss in respect of an available for sale financial asset recognised previously in equity is transferred to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

##### Non-financial assets

The carrying amount of the Consolidated Entity's non-financial assets, other than investment property, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### o Earnings per unit

The Consolidated Entity presents basic and diluted earnings per unit (EPU) data for all its ordinary unitholders. Basic EPU is calculated by dividing the profit or loss attributable to ordinary unitholders of the Consolidated Entity by the weighted average number of ordinary units outstanding during the period. Diluted EPU is determined by adjusting the profit or loss attributable to ordinary unitholders and the weighted average number of ordinary units outstanding for the effects of all dilutive potential ordinary units.

#### p Trade and other payables

Payables are stated at amortised cost using the effective interest rate method and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### q Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings on an effective interest rate basis. Interest bearing loans and borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability to at least 12 months after period end.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 3 Significant accounting policies continued

### r Distributions

A provision for distribution is recognised in the Consolidated Statement of Financial Position if the distribution has been declared prior to period end. Distributions paid and payable on units are recognised as a reduction in equity. Distributions paid are included in cash flows from financing activities in the Consolidated Statement of Cash Flows.

### s Units on issue

Issued and paid up units are recognised as changes in equity at the fair value of the consideration received by the Consolidated Entity, less any incremental costs directly attributable to the issue of new units.

### t New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2015 but have not been applied in preparing this financial report:

AASB 9 *Financial Instruments* (and applicable amendments), (effective from 1 January 2018) addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption.

AASB 15 *Revenue from Contracts with Customers* (and applicable amendments), (effective from 1 January 2018) is a new standard for the recognition of revenue. This will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

AASB 2014-9 *Amendments to Equity Method in Separate Financial Statements*, (effective 1 January 2016) is an amendment to AASB 127 *Separate Financial Statements* and allows an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements at either cost, in accordance with AASB 9 *Financial Instruments* or using the equity method described in AASB 128 *Investments in Associates and Joint Ventures*.

AASB 2015-2 *Amendments to AASB 101*, (effective from 1 January 2016) provides clarification to the existing disclosure requirements in AASB 101 *Presentation of Financial Statements* and ensures that entities are able to use judgements when applying the standard in determining what information to disclose in their financial statements.

The Consolidated Entity does not intend to early adopt the above new standards and amendments and management continues to assess their impacts.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 4 Parent entity disclosures

	Fund	
	2015 \$'000	2014 \$'000
<b>Assets</b>		
Current assets	101,240	86,186
Non-current assets	824,954	824,954
<b>Total assets</b>	<b>926,194</b>	<b>911,140</b>
<b>Liabilities</b>		
Current liabilities	106,154	81,505
Non-current liabilities	570,876	594,780
<b>Total liabilities</b>	<b>677,031</b>	<b>676,285</b>
<b>Equity</b>		
Units on issue	302,047	302,047
Reserves	(326)	(10,359)
Undistributed losses	(52,558)	(56,833)
<b>Total equity</b>	<b>249,163</b>	<b>234,855</b>

	Fund	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Net profit for the year	8,197	14,711
Other comprehensive income for the year	10,033	8,543
<b>Total comprehensive income for the year</b>	<b>18,230</b>	<b>23,254</b>

As at 30 June 2015, the Fund has a net current liability deficit of \$4,914,000. This is largely as a result of the fair value of financial derivatives of \$17,962,000 being classified as current liability at current year end on the basis that the majority of the remaining derivative fair value will be realised within the next 12 months despite the expiration date of July 2016.

The Fund intends to fund the above liabilities over the next 12 months by way of cash from operations from its underlying subsidiaries.

## 5 Segment reporting

Management have identified that the Chief Operating Decision Maker function is performed by the Board of Directors of the Responsible Entity (The Board). The Board assesses the performance of the Consolidated Entity in its entirety. The allocation of resources is not performed in separate segments by the Board. The Board reviews and assesses the information in relation to the performance of the Consolidated Entity as set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position. All property income is derived from entities domiciled in Australia.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 6 Investments accounted for using the equity method

	Consolidated 2015 \$'000	2014 \$'000
Brookfield Developments No. 6A Unit Trust	178,909	169,839
Latitude Landowning Trust	284,849	264,024
<b>Total investments accounted for using the equity method</b>	<b>463,758</b>	<b>433,863</b>

Brookfield Developments No.6 Unit Trust and Latitude Landowning Trust's place of incorporation and principal place of business is Australia. The principal activity for both entities is commercial property investment.

A summary of financial information for 2015 for investments and the comparative prior year, not adjusted for the percentage ownership held by the Consolidated Entity, is detailed below:

	Brookfield Developments No.6A Unit Trust		Latitude Landowning Trust	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current assets	113,394	46,053	4,099	4,530
Non-current assets	723,500	685,000	574,000	530,000
<b>Total assets</b>	<b>836,894</b>	<b>731,053</b>	<b>578,099</b>	<b>534,530</b>
Current liabilities	116,782	7,563	8,400	6,482
Non-current liabilities	4,477	44,132	-	-
<b>Total liabilities</b>	<b>121,259</b>	<b>51,695</b>	<b>8,400</b>	<b>6,482</b>
<b>Net assets</b>	<b>715,635</b>	<b>679,358</b>	<b>569,699</b>	<b>528,048</b>

	Brookfield Developments No.6A Unit Trust		Latitude Landowning Trust	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Opening net assets 1 July	679,358	647,660	528,048	536,263
Profit for the year	84,106	77,009	70,004	31,045
Distributions for the year	(47,829)	(45,311)	(28,353)	(39,260)
<b>Closing net assets</b>	<b>715,635</b>	<b>679,358</b>	<b>569,699</b>	<b>528,048</b>
Consolidated Entity's share (%)	25%	25%	50%	50%
Consolidated Entity's share (\$)	178,909	169,839	284,849	264,024
<b>Total investment accounted for using the equity method</b>	<b>178,909</b>	<b>169,839</b>	<b>284,849</b>	<b>264,024</b>

	Brookfield Developments No.6A Unit Trust		Latitude Landowning Trust	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Revenue	97,821	89,744	87,474	46,630
Expenses	(13,715)	(12,735)	(17,470)	(15,585)
Income tax	-	-	-	-
<b>Net profit for the year</b>	<b>84,106</b>	<b>77,009</b>	<b>70,004</b>	<b>31,045</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>84,106</b>	<b>77,009</b>	<b>70,004</b>	<b>31,045</b>

The Fund owns 25% of Brookfield Development No. 6A Unit Trust and 50% of Latitude Landowning Trust (2014: 25% and 50% respectively).

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 7 Auditor's remuneration

	Consolidated Year ended 30 June 2015 \$	Year ended 30 June 2014 \$
<b>Auditors of the Fund:</b>		
Audit and review of financial reports	40,700	39,500
Non-audit services	–	–
<b>Total auditor's remuneration</b>	<b>40,700</b>	<b>39,500</b>

Fees paid to the auditors of the Fund in relation to compliance plan audits are borne by the Responsible Entity.

## 8 Earnings per unit

### Classification of securities as ordinary units

All securities have been classified as ordinary units and included in basic EPU as they have the same entitlement to distributions. There are no dilutive potential ordinary units, therefore diluted EPU is the same as basic EPU.

### Earnings per unit

Earnings per unit have been calculated in accordance with the accounting policy per Note 3o.

		Consolidated Year ended 30 June 2015	Year ended 30 June 2014
Net profit attributable to unitholders	\$'000	34,307	19,940
Weighted average number of ordinary units used in the calculation of basic and diluted EPU	'000	49,029	49,029
Basic and diluted weighted earnings per ordinary unit	cents	69.97	40.67

## 9 Distributions

Distributions declared to unitholders were as follows:

	Cents per unit	Total amount \$'000	Date of payment
<b>Ordinary units</b>			
September 2014 distribution	2.0	981	31 October 2014
December 2014 distribution	2.0	980	30 January 2015
March 2015 distribution	2.0	981	30 April 2015
June 2015 distribution	2.0	980	31 July 2015
<b>Total distribution for the year ended 30 June 2015</b>	<b>8.0</b>	<b>3,922</b>	
<b>Ordinary units</b>			
September 2013 distribution	2.0	981	31 October 2013
December 2013 distribution	2.0	980	31 January 2014
March 2014 distribution	2.0	981	30 April 2014
June 2014 distribution	2.0	980	31 July 2014
<b>Total distribution for the year ended 30 June 2014</b>	<b>8.0</b>	<b>3,922</b>	

Distributions declared for the years ended 30 June 2015 and 30 June 2014 were paid out of the Consolidated Entity's realised revenues and expenses.

## 10 Trade and other receivables

	Consolidated 2015 \$'000	2014 \$'000
Prepayments and accrued income	425	1,172
Distributions receivable	2,764	3
Investments – available for sale	101	90
Other receivables	25	38
<b>Total trade and other receivables</b>	<b>3,315</b>	<b>1,303</b>

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 11 Investment properties

The Consolidated Entity holds the following investment properties at the reporting date:

Description	Latest external valuation \$'000	Latest external valuation date	2015 book value \$'000	2014 book value \$'000
American Express Building, Sydney	158,000	Jun-15	158,000	145,000
108 St Georges Terrace, Perth	170,000	Jun-15	170,000	166,000
Southern Cross West Tower, Melbourne	154,300	Jun-15	154,300	147,500
<b>Total investment properties held directly</b>	<b>482,300</b>		<b>482,300</b>	<b>458,500</b>

The Consolidated Entity owns 50% of Latitude Landowning Trust (Ernst & Young Centre and 50 Goulburn Street) and 25% of Brookfield Development No. 6A Unit Trust (SX East Tower). These investments are accounted for using the equity method. The Consolidated Entity's proportionate value ownership of properties held through these associates is as follows:

Description	Latest external valuation \$'000	Latest external valuation date	2015 book value \$'000	2014 book value \$'000
Ernst & Young Centre and 50 Goulburn, Sydney	287,000	Jun-15	287,000	265,000
Southern Cross East Tower, Melbourne	180,875	Jun-15	180,875	171,250
<b>Total investment property held by associates</b>	<b>467,875</b>		<b>467,875</b>	<b>436,250</b>

### Independent valuations

The investment properties of the Consolidated Entity are internally valued at each reporting date. The Consolidated Entity's policy is to obtain external valuations when internal valuations performed indicate the property value has changed by more than 5%, or whenever it is believed that the fair value of a property differs significantly from its carrying value, based on a material change to the assumptions and market conditions underlying the valuation. An external valuation is obtained at least every 3 years.

At 30 June 2015, the Ernst & Young Centre, 50 Goulburn Street and Southern Cross East Tower properties are held through associates. The properties directly held are American Express Building, 108 St Georges Terrace and Southern Cross West Tower. All properties owned directly and indirectly were independently valued by either CBRE Valuations Pty Limited or Knight Frank Valuations at 30 June 2015.

The valuations have been undertaken using a combination of discounted cash flow (DCF) and capitalisation approach. The key assumptions adopted under these methods include assessment of the capitalisation rate, discount rate, terminal yield, current passing/market rental and forecast net annual cash flows receivable from the properties. The capitalisation rates for the directly held properties used in the 30 June 2015 valuations range from 6.25% to 7.00%.

Further information regarding investment property fair values have been included in non-financial assets and liabilities recognised at fair value (Note 19).

Reconciliation of carrying amount of investment properties is set out below:	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Carrying amount at beginning of year	458,500	449,000
Impact of straight lining	236	875
Capital expenditure and incentives	26,224	7,315
Net (loss) / gain on revaluation of investment properties	(2,660)	1,310
<b>Carrying value at year end</b>	<b>482,300</b>	<b>458,500</b>

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 11 Investment properties continued

### Leasing arrangements

Investment properties are leased to tenants under long term operating leases with rentals receivable monthly. The weighted average lease term of the investment properties (as calculated by income and by ownership) is 4.45 years (2014: 4.70 years). Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Consolidated 2015 \$'000	2014 \$'000
Within one year	70,140	71,100
Later than one year but not later than five years	204,522	206,559
Later than five years	116,442	121,075
<b>Total</b>	<b>391,104</b>	<b>398,734</b>

The above table includes information for both directly held, and property held through associates based on the relevant ownership percentage that the Fund holds in the underlying investment properties.

## 12 Investments in controlled entities

	Principal place of business / country of incorporation	Ownership and voting rights 30 June 2015	Ownership and voting rights 30 June 2014
<b>Directly held subsidiaries</b>			
Brookfield Multiplex LPS Investment Trust	Australia	100%	100%
Brookfield Defence Plaza Investment Trust	Australia	100%	100%
Brookfield King Street Wharf Site 3B Landowning Trust	Australia	100%	100%
Brookfield Prime 108 St George's Terrace Holdings Trust	Australia	100%	100%
Brookfield Prime 111 Bourke Street Holdings Trust	Australia	100%	100%
Multiplex Acumen Latitude Investment Trust	Australia	100%	100%
Multiplex Southern Cross East Investment Trust	Australia	100%	100%
<b>Indirectly held subsidiaries</b>			
Brookfield Defence Plaza Landowning Trust	Australia	100%	100%
Brookfield Prime 108 St Georges Terrance Landowning Trust	Australia	100%	100%
Brookfield Prime 111 Bourke Street Landowning Trust	Australia	100%	100%

The principal activity of all of the above entities is direct and indirect property investment.

## 13 Trade and other payables

	Consolidated 2015 \$'000	2014 \$'000
Capital expenditure and lease incentive accruals	18,728	3,461
Deferred revenue and income in advance	2,173	3,272
Distribution payable	980	980
Interest payable	401	535
Management fees payable	1,566	1,486
Other payables and accruals	874	237
<b>Total trade and other payables</b>	<b>24,722</b>	<b>9,971</b>



# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 14 Interest bearing liabilities

	Consolidated 2015 \$'000	2014 \$'000
<b>Non-current</b>		
Secured bank debt	520,000	520,000
Subordinated debt	52,698	49,407
Debt establishment fees	(1,822)	(2,623)
<b>Total interest bearing liabilities</b>	<b>570,876</b>	<b>566,784</b>

	Expiry Date	Consolidated 2015 \$'000	2014 \$'000
<b>Finance arrangements</b>			
<b>Facilities available</b>			
Bank debt facilities			
- Senior debt facility	24 June 2017	520,000	520,000
- Subordinated debt facility	25 June 2017	130,000	130,000
<b>Total available interest bearing liabilities</b>		<b>650,000</b>	<b>650,000</b>
Less: facilities utilised			
- Senior debt facility		520,000	520,000
- Subordinated debt facility		52,698	49,407
<b>Total facilities utilised</b>		<b>572,698</b>	<b>569,407</b>
Unused facilities at reporting date			
- Senior debt facility		-	-
- Subordinated debt facility		77,302	80,593
<b>Total unused facilities</b>		<b>77,302</b>	<b>80,593</b>

### Senior debt facility

The Fund's \$520,000,000 senior debt facility has the following key terms:

- maturity date of 24 June 2017;
- covenants reflecting 65% loan to value ratio (LVR) requirement;
- interest cover ratio covenant requirement of at least 1.4 on a 12 month rolling basis; and
- margin of 1.75% above average bid rate on Reuters BBSY (BBR).

### Sub-ordinated debt facility

The Fund's \$130,000,000 sub-ordinated debt facility has the following key terms:

- maturity date of 25 June 2017;
- the debt is sub-ordinated behind the Senior Debt Facility;
- BBR plus margin (as defined in the senior debt facility agreement), plus a margin of 2% per annum; and
- a default under the terms of the Senior Debt Facility also causes the Sub-ordinated Debt Facility to be in default.

### Derivatives

The Consolidated Entity has entered into interest rate swaps to hedge the interest rate risk on the floating rate interest bearing liabilities above. Fair value movements of the interest rate swap assets are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The Consolidated Entity's holdings in derivatives are detailed below.

Type of contract	Expiration	Underlying instrument	Fixed rate %	Floating rate %	Notional amount of contracts outstanding \$'000	Fair value liabilities \$'000
As at 30 June 2015	July 2016	Floating to fixed	5.88	BBSW	433,424	17,962
As at 30 June 2014	July 2016	Floating to fixed	5.88	BBSW	434,984	27,996

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 15 Units on issue

	Year ended 30 June 2015 \$'000	Year ended 30 June 2015 Units	Year ended 30 June 2014 \$'000	Year ended 30 June 2014 Units
<b>Units on issue</b>				
Opening balance	326,487	49,029,150	326,487	49,029,150
<b>Closing balance</b>	<b>326,487</b>	<b>49,029,150</b>	<b>326,487</b>	<b>49,029,150</b>
<b>Unit issue costs</b>				
Opening balance	(24,440)	–	(24,440)	–
<b>Closing balance</b>	<b>(24,440)</b>	<b>–</b>	<b>(24,440)</b>	<b>–</b>
<b>Total units on issue</b>	<b>302,047</b>	<b>49,029,150</b>	<b>302,047</b>	<b>49,029,150</b>

### Ordinary units

Ordinary units entitle the holder to participate in distributions and the proceeds on winding up of the Fund in proportion to the number of units held. On a show of hands, every holder of units present at a meeting of unitholders, in person or by proxy, is entitled to one vote and upon a poll each one dollar of the value of the unit is entitled to one vote.

## 16 Reserves

	Consolidated	
	2015 \$'000	2014 \$'000
Available for sale reserve	38	26
Hedge reserve	(327)	(10,360)
<b>Total reserves</b>	<b>(289)</b>	<b>(10,334)</b>

### Available for sale reserve

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Opening balance	26	31
Fair value movement in relation to ASX listed property trusts	12	(5)
<b>Closing balance</b>	<b>38</b>	<b>26</b>

### Hedge reserve

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Opening balance	(10,360)	(18,903)
Fair value movement in relation to interest rate swap hedges	10,033	8,543
<b>Closing balance</b>	<b>(327)</b>	<b>(10,360)</b>

## 17 Undistributed profits/(losses)

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Opening balance	20,787	4,769
Net profit	34,307	19,940
Distributions to unitholders	(3,922)	(3,922)
<b>Closing balance</b>	<b>51,172</b>	<b>20,787</b>

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in Note 3 to the financial statements.

Throughout the year, in assessing the size and frequency of any distributions, the Responsible Entity considers all of the risk factors disclosed below. This includes considering the liquid/illiquid nature of any assets or investments held by the Consolidated Entity.

#### a Capital risk management

The Board's intention is to maintain a strong capital base so as to maintain investor confidence and the sustainable future development of the Consolidated Entity. The Board monitors the market unit price of the Consolidated Entity against the Consolidated Entity's net assets, along with earnings per unit invested and distributions paid per unit.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

There were no changes in the Consolidated Entity's approach to capital management during the year. Neither the Fund nor any of its subsidiaries are subject to externally imposed capital requirements.

#### b Financial risk management

##### Overview

The Consolidated Entity is exposed to financial risks in the course of their operations. These exposures arise at two levels, direct exposures, which arise from the Consolidated Entity's use of financial instruments and indirect exposures, which arise from the Consolidated Entity's equity investments in other funds (Underlying Funds). These risks can be summarised as follows:

- credit risk;
- liquidity risk; and
- market risk (including interest rate risk, foreign currency risk and equity price risk).

The Underlying Funds are exposed to financial risks in the course of their operations, which can impact their profitability. The profitability of the Underlying Funds impacts the returns the Consolidated Entity earns from these investments and the investment values.

The Responsible Entity has responsibility for the establishment and monitoring of a risk management framework. This framework seeks to minimise the potential adverse impact of the above risks on the Consolidated Entity's financial performance. The Board of the Responsible Entity is responsible for developing risk management policies and the Board Risk and Compliance Committee, which is established by the Board, is responsible for ensuring compliance with those risk management policies as outlined in the compliance plan.

Compliance with the Consolidated Entity's policies is reviewed by the Responsible Entity on a regular basis. The results of these reviews are reported to the Board and the Board Risk and Compliance Committee of the Responsible Entity quarterly.

##### Investment mandate

The Consolidated Entity's investment mandate, as disclosed in its Constitution and Product Disclosure Statement, is to invest in A-grade commercial property assets in Australia and listed property trust securities.

##### Derivative financial instruments

Whilst the Consolidated Entity utilises derivative financial instruments, it does not enter into or trade derivative financial instruments for speculative purposes. The use of derivatives is governed by the Consolidated Entity's investment policies, which provide written principles on the use of financial derivatives. These principles permit the use of derivatives to mitigate financial risks associated with financial instruments utilised by the Consolidated Entity.

#### c Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

##### Sources of credit risk and risk management strategies

The Consolidated Entity is exposed to both direct and indirect credit risk in the normal course of their operations. Direct credit risk arises principally from the Consolidated Entity's property tenants, investments in listed property trusts and derivative counterparties. Other credit risk also arises for the Consolidated Entity from cash and cash equivalents and distributions receivable from listed property trusts.

Indirect credit risk arises principally from the Underlying Funds' property tenants and derivative counterparties.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments *continued*

### c Credit risk *continued*

#### Trade and other receivables

The Consolidated Entity's exposures to credit risk are influenced mainly by the individual characteristics of each tenant and counterparty. The Consolidated Entity manages and minimises exposure to credit risk by:

- securing well known and long term tenants, with strong lease covenants;
- obtaining bank guarantees from tenants;
- managing and minimising exposures to individual tenants; and
- monitoring receivables balances on an ongoing basis.

#### Fair value of financial derivatives

Transactions with derivative counterparties are limited to established financial institutions that meet the Consolidated Entity's minimum credit rating criteria. The Consolidated Entity also utilises the International Swaps and Derivatives Association's (ISDA's) agreements with derivative counterparties where possible to limit the credit risk exposure of such transactions by allowing settlement of derivative transaction on a net rather than gross basis.

The Consolidated Entity's overall strategy of credit risk management remains unchanged from 30 June 2014.

#### Investments – available for sale

Credit risk arising from investments is mitigated by investing in securities in accordance with the Consolidated Entity's Constitution and Product Disclosure Statement. The Consolidated Entity invests in listed investments with the following characteristics:

- the securities are included in the S&P/ASX 300 Property Index;
- greater than 75% of the fund's earnings must be from rent and funds management income;
- the investment portfolio must contain a minimum of five different funds to ensure diversity; and
- the portfolio is not to have an exposure greater than 50% to a single fund manager, 50% to a single property security or 30% to a single tenant.

Prior to making an investment in an Underlying Fund, the Responsible Entity will assess the Underlying Funds' asset portfolio to ensure the risk investment strategy of the Underlying Fund is consistent with the investment objectives of the Consolidated Entity.

#### Exposure to credit risk

The table below shows the maximum exposure to credit risk at the reporting date. The carrying amounts of these financial assets represent the maximum credit risk exposure at the reporting date.

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Cash and cash equivalents	17,117	23,585
Trade and other receivables	3,315	1,303
<b>Total exposure to credit risk</b>	<b>20,432</b>	<b>24,888</b>

#### Concentrations of credit risk exposure

There are no other significant exposures of credit risk to the Consolidated Entity at 30 June 2015.

#### Collateral obtained/held

Where applicable, the Consolidated Entity obtains collateral from counterparties to minimise the risk of default on their contractual obligations. Tenants of the Consolidated Entity's property assets have provided bank guarantees in favour of the direct property-owning entities within the Consolidated Entity. At the current and prior reporting dates the Consolidated Entity did not hold any other collateral in respect of its financial assets.

During the year, the Consolidated Entity called on no bank guarantees from tenants (2014: \$120,000).

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments continued

### c Credit risk continued

#### Financial assets past due but not impaired

The ageing of the Consolidated Entity's receivables at the reporting date is detailed below:

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Current	3,302	1,248
Past due 0-30 days	–	–
Past due 31-120 days	–	15
Past due 121 days to one year	13	40
More than one year	–	–
<b>Total trade and other receivables</b>	<b>3,315</b>	<b>1,303</b>

Amounts recognised above are not deemed to be impaired. There are no significant financial assets that have had their terms renegotiated that would otherwise have rendered the financial assets past due or impaired (2014: nil). During the year ended 30 June 2015, no receivables were written off as bad debts by the Consolidated Entity (2014: \$2,000).

### d Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as and when they fall due.

#### Sources of liquidity risk and risk management strategies

The Consolidated Entity is exposed to direct and indirect liquidity risk in the normal course of its operations. The main sources of liquidity risk for the Consolidated Entity are the timing of repayment and refinancing of interest bearing liabilities. The Consolidated Entity's approach to managing liquidity risk is to monitor the timing of its interest bearing liabilities and ensure that discussions with financiers are commenced well in advance of any scheduled maturity date.

The Consolidated Entity also manages liquidity risk by maintaining adequate banking facilities, through continuous monitoring of forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The main sources of indirect liquidity risk for the Consolidated Entity is the timing of repayment and refinancing of interest bearing liabilities held by the Underlying Funds, as this can directly impact the amount of distributions the Underlying Funds can pay. The Consolidated Entity's approach to managing this risk forms part of the investment selection process. The Consolidated Entity will only invest in Underlying Funds with investment strategies consistent with the investment objectives of the Consolidated Entity and will monitor the performance of those funds.

The Consolidated Entity's specific risk management strategies are discussed below.

#### Interest bearing liabilities

The Consolidated Entity is exposed to liquidity risk (refinancing risk) on its interest bearing loans. The Consolidated Entity manages this risk by ensuring debt maturity dates and loan covenants are regularly monitored and negotiations with counterparties are commenced well in advance of the debt's maturity date. Refer to interest bearing liabilities (Note 14) for details of facilities available.

#### Investments – available for sale

The Consolidated Entity's listed investments are considered readily realisable as they are listed on the ASX. The Consolidated Entity's liquidity risk is also managed in accordance with its investment strategy, as disclosed in the Product Disclosure Statement. The Consolidated Entity's overall strategy to liquidity risk management remains unchanged from 2014.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments continued

### d Liquidity risk continued

#### Maturity analysis of financial liabilities

The following are the contractual maturities of financial liabilities, including estimated interest payments. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Consolidated Entity can be required to pay.

	Carrying amount	Contractual cash flows	Consolidated \$'000			
			0 to 12 months	1 to 2 years	2 to 5 years	Greater than 5 years
<b>Consolidated 2015</b>						
Trade and other payables	23,341	23,341	23,341	–	–	–
Interest bearing liabilities	570,876	572,698	–	572,698	–	–
Distribution payable	980	980	980	–	–	–
	<b>595,196</b>	<b>597,018</b>	<b>24,320</b>	<b>572,698</b>	–	–
Interest payable on debt	401	45,760	23,065	22,695	–	–
Effect of interest rate swap	17,962	18,097	18,097	–	–	–
<b>Net interest payable on debt</b>	<b>18,363</b>	<b>63,857</b>	<b>41,162</b>	<b>22,695</b>	–	–
<b>Total financial liabilities</b>	<b>613,559</b>	<b>660,875</b>	<b>65,482</b>	<b>595,393</b>	–	–
<b>Consolidated 2014</b>						
Trade and other payables	8,456	8,456	8,456	–	–	–
Interest bearing liabilities	566,784	569,407	–	–	569,407	–
Distribution payable	980	980	980	–	–	–
	<b>576,220</b>	<b>578,843</b>	<b>9,436</b>	–	<b>569,407</b>	–
Interest payable on debt	535	78,864	26,430	26,430	26,004	–
Effect of interest rate swap	27,996	27,601	13,267	13,217	1,117	–
<b>Net interest payable on debt</b>	<b>28,531</b>	<b>106,465</b>	<b>39,697</b>	<b>39,647</b>	<b>27,121</b>	–
<b>Total financial liabilities</b>	<b>604,751</b>	<b>685,308</b>	<b>49,133</b>	<b>39,647</b>	<b>596,528</b>	–

#### Defaults and breaches

During the financial years ended 30 June 2015 and 30 June 2014, the Consolidated Entity was not in default or breach of any terms of its loan amounts or covenants.

### e Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

#### Sources of market risk and risk management strategies

The Consolidated Entity is exposed to both direct and indirect market risk in the normal course of its operations. Direct market risk arises principally from the Consolidated Entity's interest rate risk on interest bearing liabilities and equity price risk on the ASX listed property securities investment portfolio. Indirect market risk arises in the form of equity price risk, interest rate risk and foreign currency risk.

The Consolidated Entity will only invest in funds with investment strategies consistent with the investment objectives of the Consolidated Entity and monitors the performance of those funds.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments continued

### e Market risk continued

#### Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Cash and cash equivalent balances will also fluctuate with changes in interest rates due to interest earned. The key source of interest rate risk for the Consolidated Entity is derived from interest bearing liabilities and cash balances. The Consolidated Entity manages this exposure by entering into interest rate swap agreements to fix the interest rate charged on its interest bearing liabilities. Refer to interest bearing liabilities (Note 14) for further details.

The table below shows the Consolidated Entity's direct exposure to interest rate risk at year end.

	Floating rate \$'000	Fixed rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Consolidated 2015</b>				
<b>Financial assets</b>				
Cash and cash equivalents	8,704	8,413	–	17,117
Trade and other receivables	–	–	3,315	3,315
<b>Total financial assets</b>	<b>8,704</b>	<b>8,413</b>	<b>3,315</b>	<b>20,432</b>
<b>Financial liabilities</b>				
Trade and other payables	–	–	24,722	24,722
Interest bearing liabilities	572,698	–	(1,822)	570,876
Financial derivatives	17,962	–	–	17,962
<b>Total financial liabilities</b>	<b>590,660</b>	<b>–</b>	<b>22,900</b>	<b>613,560</b>
<b>Consolidated 2014</b>				
<b>Financial assets</b>				
Cash and cash equivalents	3,912	19,673	–	23,585
Trade and other receivables	–	–	1,303	1,303
<b>Total financial assets</b>	<b>3,912</b>	<b>19,673</b>	<b>1,303</b>	<b>24,888</b>
<b>Financial liabilities</b>				
Trade and other payables	–	–	9,971	9,971
Interest bearing liabilities	569,407	–	(2,623)	566,784
Financial derivatives	27,996	–	–	27,996
<b>Total financial liabilities</b>	<b>597,403</b>	<b>–</b>	<b>7,348</b>	<b>604,751</b>

#### Sensitivity analysis

A change of +/- 1% in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes all other variables remain constant.

	2015		2015		2014		2014	
	+ 1% Profit or loss \$'000	+ 1% Equity \$'000	- 1% Profit or loss \$'000	- 1% Equity \$'000	+ 1% Profit or loss \$'000	+ 1% Equity \$'000	- 1% Profit or loss \$'000	- 1% Equity \$'000
<b>Consolidated</b>								
Interest on cash	87	87	(87)	(87)	39	39	(39)	(39)
Interest bearing liabilities	(5,727)	(5,727)	5,727	5,727	(5,694)	(5,694)	5,694	5,694
Interest on swap	4,332	4,332	(4,332)	(4,332)	4,349	4,349	(4,349)	(4,349)
Fair value of derivatives	–	4,333	–	(4,393)	–	8,569	–	(8,772)
<b>Total (decrease)/increase</b>	<b>(1,308)</b>	<b>3,025</b>	<b>1,308</b>	<b>(3,085)</b>	<b>(1,306)</b>	<b>7,263</b>	<b>1,306</b>	<b>(7,466)</b>

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments *continued*

### e Market risk *continued*

#### Foreign currency risk

Foreign currency risk is the risk that the market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

During the current year, the Consolidated Entity has not been exposed to direct foreign currency risk (2014: nil). The Consolidated Entity is exposed to indirect foreign currency risk due to its investment in entities that are exposed to foreign currency risk related to their overseas operations. The Consolidated Entity manages this risk by ensuring the Consolidated Entity only invests in funds with investment strategies consistent with the investment objectives of the Consolidated Entity and monitoring the performance of those funds.

Whilst the Consolidated Entity has an indirect risk exposure to foreign currency risk, no sensitivity analysis has been performed as the impact of a reasonably possible change in foreign exchange rates on the Consolidated Entity cannot be reliably measured.

#### Other market risk

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices. The primary source of other market risk for the Consolidated Entity is associated with its listed property trust portfolio. The Consolidated Entity is not exposed to other similar market risk.

The Responsible Entity manages the Consolidated Entity's market risk on a daily basis in accordance with the Consolidated Entity's investment objectives and policies. These are detailed in the Consolidated Entity's Constitution and Product Disclosure Statement.

#### Sensitivity analysis

A +/- 10% in equity prices would increase/(decrease) the value of investments available for sale and therefore net assets and equity by \$10,000 (2014: \$9,000) assuming that all other variables remain constant.

### f Fair values

#### Methods for determining fair values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

#### Cash and cash equivalents and trade and other receivables

Fair value, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### Investments – available for sale

Fair value for ASX listed investments is calculated based on the closing price of the security at the reporting date.

#### Derivatives

The fair value of derivative contracts is based on present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.



# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 18 Financial instruments *continued*

### f Fair values *continued*

#### Fair values versus carrying amounts

The Consolidated Entity is required to disclose fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Consolidated Entity's assets and liabilities measured and recognised at fair value at 30 June 2015. The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables are assumed to reasonably approximate their fair values due to their short-term nature. Accordingly, fair value disclosures are not provided for such assets and liabilities.

Consolidated Entity – at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Total \$'000
<b>Assets</b>			
Available for sale investments	101	–	101
<b>Total financial assets at fair value</b>	<b>101</b>	<b>–</b>	<b>101</b>
<b>Liabilities</b>			
Financial derivatives	–	17,962	17,962
<b>Total financial liabilities at fair value</b>	<b>–</b>	<b>17,962</b>	<b>17,962</b>
<b>Consolidated Entity – at 30 June 2014</b>			
	Level 1 \$'000	Level 2 \$'000	Total \$'000
<b>Assets</b>			
Available for sale investments	90	–	90
<b>Total financial assets at fair value</b>	<b>90</b>	<b>–</b>	<b>90</b>
<b>Liabilities</b>			
Financial derivatives	–	27,996	27,996
<b>Total financial liabilities at fair value</b>	<b>–</b>	<b>27,996</b>	<b>27,996</b>

During the current and prior years, there were no financial assets or liabilities which transferred between levels 1, 2 or 3.

## 19 Non-financial assets and liabilities recognised at fair value

### Fair value hierarchy

The below table presents the Consolidated Entity's non-financial assets and liabilities measured and recognised at fair value at 30 June 2015.

The Consolidated Entity is required to disclose fair value measurements by level of the following fair value measurement hierarchy:

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

Consolidated Entity – at 30 June 2015	Level 3 \$'000	Total \$'000
<b>Assets</b>		
Investment properties	482,300	482,300
<b>Total assets</b>	<b>482,300</b>	<b>482,300</b>

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 19 Non-financial assets and liabilities recognised at fair value continued

### Fair value hierarchy continued

Consolidated Entity – at 30 June 2014	Level 3 \$'000	Total \$'000
<b>Assets</b>		
Investment properties	458,500	458,500
<b>Total assets</b>	<b>458,500</b>	<b>458,500</b>

During the current and prior years, there were no non-financial assets or liabilities which transferred between levels 1, 2 or 3.

### Valuation techniques used to determine level 3 fair values

At the end of each reporting period, the Responsible Entity makes an assessment of the fair value of each property.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Responsible Entity considers information from a variety of sources including:

- the most recent independent valuations;
- current prices in an active market for properties of a different nature or recent prices of similar properties in a less active market, adjusted to reflect differences;
- discounted cash flow projections based on reliable estimates; and
- capitalised income projections and capitalisation rates.

### Fair value measurements using unobservable inputs (level 3)

The following table presents the changes in level 3 items for the period ended 30 June 2015 and the comparative period 30 June 2014 for recurring fair value measurements:

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Opening balance 1 July	458,500	–
Adoption of AASB 13	–	449,000
Impact of straight lining <sup>(1)</sup>	236	875
Capital expenditure and incentives	26,224	7,315
Increase in fair value of investment properties <sup>(1)</sup>	(2,660)	1,310
<b>Carrying value at year end</b>	<b>482,300</b>	<b>458,500</b>

(1) Recognised in profit and loss

### Valuation inputs and relationship to fair value

Description	Fair value at 30 June 2015 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment Properties	\$482,300	Discount rate	7.75% - 8.50%	The higher the discount rate and terminal rate, the lower the fair value.
		Terminal rate	6.75% - 7.00%	
		Capitalisation rate	6.25% - 7.00%	The higher the capitalisation rate and expected vacancy rate, the lower the fair value.
		Vacancy rate	0.00% - 23.80%	
		Average rental growth rate	2.90% - 3.92%	The higher the rental growth rate, the higher the fair value.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 19 Non-financial assets and liabilities recognised at fair value continued

### Valuation inputs and relationship to fair value continued

Description	Fair value at 30 June 2014 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment Properties	\$458,500	Discount rate	8.50%	The higher the discount rate and terminal rate, the lower the fair value.
		Terminal rate	6.75% - 7.50%	
		Capitalisation rate	6.63% - 7.50%	The higher the capitalisation rate and expected vacancy rate, the lower the fair value.
		Vacancy rate	0.00% - 1.35%	
		Average rental growth rate	2.50% - 3.74%	The higher the rental growth rate, the higher the fair value.

Refer to investment properties (Note 11) for further information regarding valuations.

## 20 Reconciliation of cash flows from operating activities

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
<b>Net profit for the year</b>	<b>34,307</b>	<b>19,940</b>
Adjustments for:		
<i>Items classified as investing activities</i>		
- Share of net profit of investments accounted for using the equity method	(56,029)	(34,775)
- Distribution income from ASX listed property trusts	(6)	(8)
- Proceeds from sale of ASX listed property trusts	-	(14)
<i>Non cash items</i>		
- Amortisation expense	1,349	1,298
- Straight lining of rental income	(236)	(875)
- Net loss/(gain) from revaluation of investment properties	2,660	(1,310)
<b>Operating loss before changes in working capital</b>	<b>(17,955)</b>	<b>(15,744)</b>
Changes in assets and liabilities during the year:		
Increase in trade and other receivables	552	(524)
Increase in trade and other payables	4,109	7,172
<b>Net cash flows used in operating activities</b>	<b>(13,294)</b>	<b>(9,096)</b>

## 21 Related parties

### Responsible Entity

The Responsible Entity of the Fund is Brookfield Capital Management Limited.

### Key management personnel

The Fund is required to have an incorporated Responsible Entity to manage the activities of the Fund.

The Directors of the Responsible Entity are Key Management Personnel of that entity.

F. Allan McDonald

Barbara Ward

Shane Ross (Resigned as Alternate Director for Russell Proutt and appointed Director on 6 May 2015)

Russell Proutt (Resigned as Director on 6 May 2015)

No compensation is paid to any of the Key Management Personnel of the Responsible Entity directly by the Fund or Consolidated Entity.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 21 Related parties continued

### Directors' interests

The following table sets out each Director's relevant interest in the units of the registered schemes and rights or options over such instruments issued by the entities within the Consolidated Entity and other related bodies corporate as at the reporting date:

Director	Brookfield Prime Property Fund units held
F. Allan McDonald	–
Barbara Ward	–
Shane Ross	–

No options are held by or have been issued to the Directors.

Russell Proutt resigned as Director on 6 May 2015.

### Parent entities

The ultimate Australian parent of the Consolidated Entity is BHCA Pty Limited. The ultimate parent of the Consolidated Entity is Brookfield Asset Management Inc.

### Responsible Entity's fees and other transactions

In accordance with the Fund Constitution, Brookfield Capital Management Limited is entitled to receive:

#### Performance fee

The Responsible Entity is entitled to a performance fee where the performance of the Fund in any six month period ending 30 June or 31 December exceeds that of the UBS Commercial Property Accumulation (200 Index). The performance fee is calculated in two tiers as follows:

- a Tier 1 performance fee equal to 5.125% (including GST less any reduced input tax credits) of the amount by which the total return of the Fund exceeds the benchmark; and
- a Tier 2 performance fee which is applicable only where the Fund produces a total return out performance in excess of 1% per 6 month period above the benchmark. This tier of the fee is calculated as 15.375% (including GST less any reduced input tax credits) of the amount by which the total return of the Fund is in excess of 1% above the benchmark for the 6 month period (for a year, roughly equivalent to returns over the benchmark plus 2% per annum).

Any previous underperformance must be recovered before a performance fee becomes payable. The benchmark return for June 2015 has not been met.

During the current year and as at 30 June 2015, no performance fee has been paid or is payable (2014: nil).

#### Management fee

A management fee based on the gross value of assets is payable to the Responsible Entity. The fee is payable by the Consolidated Entity quarterly in arrears. The management fee expense for the year ended 30 June 2015 was \$6,258,000 (2014: \$6,068,000).

#### Related party unitholders

The following related parties held units in the Fund during the year:

- Brookfield BPPF Investments Pty Ltd (formerly Multiplex Colt Investments Pty Ltd) as trustee for Brookfield BPPF Investments Trust (formerly Multiplex Colt Investments Trust) holds 10,893,945 units or 22.2% of the Fund at year end (2014: 10,893,945 units or 22.2%);
- Brookfield Securities (Australia) Pty Ltd holds 2,663,073 units or 5.4% of the Fund at year end (2014: 2,663,073 units or 5.4%); and
- Brookfield Capital Securities Limited as trustee of Brookfield Multiplex PPF Investment No 2 Trust holds 25,895,419 units or 52.8% of the Fund at year end (2014: 25,895,419 units or 52.8%).

#### Irrevocable offers and right of first and last refusal

As disclosed in the Fund's Product Disclosure Statement (PDS) dated 22 June 2006, certain rights exist between the Consolidated Entity and Brookfield. In certain circumstances Brookfield has the right to acquire assets from the Consolidated Entity and its subsidiary trusts. No assets have been acquired by Brookfield under these rights since the inception of the Fund.

# Notes to the Consolidated Financial Statements Continued

For the year ended 30 June 2015

## 21 Related parties *continued*

### Subordinated debt facility

A subordinated debt facility has been entered into between the Consolidated Entity and a related party BPPF Financier Pty Ltd. See interest bearing liabilities (Note 14) for further details.

	Consolidated	
	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
<b>Transactions with associates</b>		
- Distribution income	23,372	30,958
<b>Transactions with the Responsible Entity</b>		
- Management fees	(6,258)	(6,068)
- Management fees payable (included in trade and other payables)	(1,566)	(1,484)
<b>Transactions with related parties of the Responsible Entity</b>		
- Distributions paid	(3,156)	(3,156)
- Distribution payable	(789)	(789)
- Custody fees	(39)	(37)
- Custody fees payable	(10)	(9)
- Property services fees	(2,017)	(1,956)
- Property services fees payable	(131)	(105)
- Rental income	138	131
- Rent receivable	11	11
- Interest paid / capitalised	(3,291)	(5,761)
- Debt repaid (including capitalised interest)	-	(38,860)
- Debt outstanding	(52,698)	(49,407)

Transactions with related parties are conducted on normal commercial terms and conditions. Distributions paid by the Consolidated Entity to related parties are made on the same terms and conditions applicable to all unitholders.

## 22 Contingent liabilities and assets

No contingent liabilities or assets existed at 30 June 2015 (30 June 2014: nil).

## 23 Capital and other commitments

No capital or other commitments exist at 30 June 2015 (30 June 2014: nil).

## 24 Events subsequent to the reporting date

There are no matters or circumstances which have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

# Directors' Declaration

For the year ended 30 June 2015

In the opinion of the Directors of Brookfield Capital Management Limited, as Responsible Entity of Brookfield Prime Property Fund:

- a The consolidated financial statements and notes, set out in pages 14 to 43, are in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of the Consolidated Entity as at 30 June 2015 and of its performance for the financial year ended on that date;
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  - iii complying with International Financial Reporting Standards, as stated in Note 2 to the consolidated financial statements.
- b There is reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2015.

Signed in accordance with a resolution of the Directors of Brookfield Capital Management Limited pursuant to Section 295(5) of the *Corporations Act 2001*.

Dated at Sydney this 21st day of August 2015.



**Shane Ross**  
Director  
Brookfield Capital Management Limited

# Independent Auditor's Report

For the year ended 30 June 2015



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Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1220 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
www.deloitte.com.au

## Independent Auditor's Report to the Unitholders of Brookfield Prime Property Fund

We have audited the accompanying financial report of Brookfield Prime Property Fund ("the Fund"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 14 to 44.

### *Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity of the Fund ("the directors") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.



# Independent Auditor's Report Continued

For the year ended 30 June 2015

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion:

- (a) the financial report of Brookfield Prime Property Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



AG Collinson  
Partner  
Chartered Accountants  
Sydney, 21 August 2015



# Corporate Directory

**RESPONSIBLE ENTITY**

Brookfield Capital Management Limited  
Level 22  
135 King Street  
Sydney NSW 2000  
Telephone: (02) 9322 2000  
Facsimile: (02) 9322 2001

**DIRECTORS**

F. Allan McDonald  
Barbara Ward  
Brian Motteram  
Russell Proutt  
Shane Ross

**COMPANY SECRETARY**

Neil Olofsson

**REGISTERED OFFICE**

Level 22  
135 King Street  
Sydney NSW 2000  
Telephone: (02) 9322 2000  
Facsimile: (02) 9322 2001

**CUSTODIAN**

Brookfield Funds Management Limited  
Level 22  
135 King Street  
Sydney NSW 2000  
Telephone: (02) 9322 2000

**STOCK EXCHANGE**

The Fund is listed on the Australian Securities Exchange (ASX Code: BPA)  
The Home Exchange is Sydney.

**AUDITOR**

Deloitte Touche Tohmatsu  
Eclipse Tower  
Level 19  
60 Station Street  
Parramatta NSW 2150  
Telephone: (02) 9840 7000  
Facsimile: (02) 9840 7001



[www.au.brookfield.com](http://www.au.brookfield.com)