Charter Hall Direct Industrial Fund

ARSN 144 613 641

Financial report

For the year ended 30 June 2014

Contents

Cover photo: Toll Fleet & Auto Logistics, Horsburgh Drive, Altona, North Vic

Directors' report

For the year ended 30 June 2014

The directors of Charter Hall Direct Property Management Limited, the responsible entity of Charter Hall Direct Industrial Fund (Fund or CHDIF), present their report together with the consolidated financial statements of the Fund for the year ended 30 June 2014. The Fund comprises Charter Hall Direct Industrial Fund and its controlled entities.

Principal activities

The principal activity of the Fund is investment in industrial property. There are no significant changes in the nature of the Fund's activities during the year.

Directors

The following persons have held office as directors of the responsible entity during the year and up to the date of this report:

- Peeyush Gupta - Chairman and Non-Executive Independent Director
- Cedric Fuchs - Executive Director
- David Harrison - Executive Director
- Rick Higgins - Non-Executive Independent Director
- Ian Pratt - Non-Executive Independent Director
- David Southon - Executive Director
- Richard Stacker - Alternate to David Harrison and David Southon

Review and results of operations

The performance of the Fund, as represented by the results of its operations for the year, was as follows:

	2014 $'000	2013 $'000
Net property income	**14,787**	12,284
Straightlining of rental income	**(2,191)**	(1,669)
Property fund investment income	**2,447**	2,104
Rental guarantee and lease incentive income*	**787**	1,214
Operating income	**15,830**	13,933
Fund management fees	**(1,302)**	(1,159)
Administration and other expenses	**(349)**	(367)
Operating expenses	**(1,651)**	(1,526)
EBIT	**14,179**	12,407
Interest income	**49**	86
Finance costs	**(3,138)**	(3,151)
Net interest expenses	**(3,089)**	(3,065)
Operating earning attributable to unitholders of CHDIF	**11,090**	9,342
Non operating items		
Net fair value movements on financial assets	**3,055**	598
Net fair value movements on investment properties	**7,598**	967
Net fair value movements on derivative financial instruments	**(275)**	(244)
Rental guarantee and lease incentive income*	**(787)**	(1,214)
Straightlining of rental income	**2,191**	1,669
Amortisation of borrowing costs - non operating	**(459)**	(342)
Total non operating items	**11,323**	1,434
Net profit attributable to unitholders of CHDIF	**22,413**	10,776

*Rental guarantee and lease incentive income are included in operating earnings and are distributable. They are not classified as income per accounting standards and not included in the consolidated statement of comprehensive income. The rental guarantee is treated as a reduction in the value of investment property per accounting standards.

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for net fair value movements and non-cash accounting adjustments such as straight lining of rental income and amortisations.

The inclusion of operating earnings as a measure of the Fund's profitability provides investors with the same basis that is used internally for evaluating performance and making strategic decisions.

Directors' report (continued)

For the year ended 30 June 2014

Distributions

Distributions paid or declared during the year are as follows:

	2014		2013	
	Cents per unit	**$'000**	Cents per unit	$'000
Ordinary unitholders				
30 September	**2.10**	**2,529**	2.03	2,441
31 December	**2.10**	**2,529**	2.03	2,439
31 March	**2.10**	**2,529**	2.03	2,439
30 June	**2.10**	**2,529**	2.03	2,439
	8.40	**10,116**	8.12	9,758

Significant changes in the state of affairs

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the year under review.

Matters subsequent to the end of the financial year

The directors of the responsible entity are not aware of any matter or circumstance not otherwise dealt with in this report or the financial report that has significantly affected or may significantly affect the operations of the Fund, the results of its operations or the state of affairs of the Fund in financial years subsequent to the year ended 30 June 2014.

Likely developments and expected results of operations

At the date of this report and to the best of the directors' knowledge and belief, there are no other anticipated changes in the operations of the Fund which would have a material impact on the future results of the Fund. Property valuation changes, movements in the fair value of derivative financial instruments and movements in the interest rates may have a material impact on the Fund's results in future years. However, these cannot be reliably estimated at the date of this report.

Further information on likely developments in the operations of the Fund and the expected results of operations have not been included in this financial report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnification and insurance of directors, officers and auditor

During the year, the Fund contributed to the premium for a contract insuring all directors, secretaries, executive officers and officers of the Fund and of each related body corporate of the Fund, with the balance of the premium paid by the Charter Hall Group and funds managed by members of the Charter Hall Group. The insurance does not provide any cover for the independent auditor of the Fund or of a related party of the Fund. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Provided the officers of the responsible entity act in accordance with the Fund's Constitution and the Corporations Act 2001, the officers are indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The Fund indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the Fund of the auditor's engagement terms, except where prohibited by the Corporations Act 2001.

Fees paid to and interests held in the Fund by the responsible entity or its associates

Fees paid or payable to the responsible entity or its associates for services provided during the year are in accordance with the Fund Constitution.

Units in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 13 to the financial statements.

The number of units issue at 30 June 2014 was 120,445,046 (2013:120,445,046).

The value of the Fund's assets and liabilities is disclosed in the consolidated balance sheet and derived using the basis set out in Note 1 to the financial statements.

Directors' report (continued)

For the year ended 30 June 2014

Environmental regulation

To the best of the directors' knowledge, the operations of the Fund have been undertaken in compliance with the applicable environmental regulations that apply to the Fund's activities.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Rounding of amounts

The Fund is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

This report is made in accordance with a resolution of the directors.

Director

Sydney

20 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Direct Industrial Fund for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Charter Hall Direct Industrial Fund and the entities it controlled during the period.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
20 August 2014

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Consolidated statement of comprehensive income

For the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Revenue			
Net property income		**16,863**	13,680
Property funds investment income		**2,447**	2,104
Interest income		**49**	86
Total revenue		**19,359**	15,870
Other income			
Net fair value gain on investment properties	6	**7,598**	967
Net fair value gain on financial assets	7	**3,055**	598
Total other income		**10,653**	1,565
Total revenue and other income		**30,012**	17,435
Expenses			
Investment property expenses		**(2,076)**	(1,396)
Fund management fees	20	**(1,302)**	(1,159)
Administration and other expenses		**(349)**	(367)
Net loss on derivative financial instruments		**(275)**	(244)
Finance costs		**(3,597)**	(3,493)
Total expenses		**(7,599)**	(6,659)
Net profit		**22,413**	10,776
Other comprehensive income		**-**	-
Total comprehensive income		**22,413**	10,776

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

Consolidated balance sheet

As at 30 June 2014

	Notes	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	3	**1,401**	2,746
Receivables	4	**323**	2,054
Other assets	5	**122**	382
Total current assets		**1,846**	5,182
Non-current assets			
Investment properties	6	**173,500**	164,350
Investment in financial assets at fair value	7	**25,737**	22,682
Derivative financial instruments	8	**-**	120
Total non-current assets		**199,237**	187,152
Total assets		**201,083**	192,334
Current liabilities			
Payables	9	**579**	755
Other liabilities	10	**506**	683
Distribution payable	11	**2,529**	2,439
Borrowings	12	**-**	73,348
Total current liabilities		**3,614**	77,225
Non-current liabilities			
Derivative financial instruments	8	**157**	-
Borrowings	12	**69,906**	-
Total non-current liabilities		**70,063**	-
Total liabilities		**73,677**	77,225
Net assets		**127,406**	115,109
Equity			
Contributed equity	13	**119,175**	119,175
Retained earnings / (Accumulated losses)	14	**8,231**	(4,066)
Total equity		**127,406**	115,109

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

Consolidated statement of changes in equity

For the year ended 30 June 2014

		Attributable to unitholders of Charter Hall Direct Industrial Fund		
	Notes	**Contributed Equity $'000**	**(Accumulated losses) / Retained earnings $'000**	**Total $'000**
Balance at 1 July 2012		100,568	(5,084)	95,484
Total comprehensive income			10,776	10,776
Transactions with unitholders in their capacity as unitholders:				
Distributions provided for or paid	11	-	(9,758)	(9,758)
Contributions of equity net of issue costs	13	18,607	-	18,607
Balance at 30 June 2013		119,175	(4,066)	115,109
Total comprehensive income			**22,413**	**22,413**
Transactions with unitholders in their capacity as unitholders:				
Distributions provided for or paid	11	**-**	**(10,116)**	**(10,116)**
Balance at 30 June 2014		**119,175**	**8,231**	**127,406**

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

Consolidated statement of cash flows

For the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Property income received (inclusive of outgoings)		**15,705**	13,711
Property expenses paid (inclusive of GST)		**(2,150)**	(1,624)
Distributions received		**3,663**	1,201
Interest received		**49**	86
Finance expenses		**(3,763)**	(3,093)
Fund management fees paid		**(1,194)**	(1,173)
Other administration expenses paid		**(360)**	(123)
Net cash flows from operating activities	15	**11,950**	8,985
Cash flows from investing activities			
Payments for investment properties		**-**	(51,778)
Capital expenditure on investment properties		**(148)**	-
Net cash flows from investing activities		**(148)**	(51,778)
Cash flows from financing activities			
Proceeds from issue of units		**-**	20,269
Proceeds from borrowings		**3,600**	29,746
Repayment of borrowings		**(6,721)**	-
Payments for interest rate swaps		**-**	(2,686)
Distributions paid to unitholders		**(10,026)**	(9,355)
Net cash flows from financing activities		**(13,147)**	37,974
Net (decrease) in cash and cash equivalents		**(1,345)**	(4,819)
Cash and cash equivalents at the beginning of the year		**2,746**	7,565
Cash and cash equivalents at the end of the year	3	**1,401**	2,746

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the year ended 30 June 2014

1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the Fund's constitution, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Fund is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

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

Historical cost convention

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

- investment properties – measured at fair value;
- financial assets and liabilities held at fair value through profit or loss (including derivative instruments).

New and amended standards adopted

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

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

The Fund has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB127. No differences were found and therefore no adjustments to any carrying amounts in the financial statements are required as a result of the adoption AASB 10.

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Critical accounting estimates

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Fund's accounting policies.

The areas involving significant estimates or judgements are:

- Income tax – Note 1(h);
- Impairment of assets – Note 1(i);
- Derivative financial instruments – Note 1(n);
- Investment properties – Note 1(o); and
- Fair value estimation – Note 1(w)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Fund and that are believed to be reasonable under the circumstances.

Net current asset deficiency

At 30 June 2014, the Fund has a net deficiency of current assets over current liabilities of $1,768,000 (2013: $72,043,000). The Directors of the responsible entity have continued to prepare the consolidated financial statements on a going concern basis due to the following circumstances:

- The Fund expects to generate positive cash flows in order to meet current asset deficiencies;
- The Fund continues to meet all conditions of its debt arrangements;
- A number of non-cash liabilities such as unearned income (i.e. income received as cash in advance) are included in the Trust's current liabilities as at 30 June 2014 and these represent future income in the profit and loss account rather than an outflow of cash; and
- Current liabilities include Fund distribution payable at 30 June 2014 of $2,529,000 (2013: $2,439,000).
- The Fund refinanced its debt facility in August 2013 to extend the maturity date from April 2014 to July 2016. The Fund actively manage its cash positions and repays debt wherever possible. As at 30 June 2014 the Fund has undrawn balance of $4,500,000 (2013: $1,379,000) that can be used to fund current liabilities.

(b) Principles of consolidation

Controlled entities

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

Intercompany transactions, balances and unrealised gains on transactions between controlled entities are eliminated. Unrealised losses are also eliminated unless the transaction involves impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Fund.

(c) Segment reporting

The Fund has not produced segment information as management had determined that only one operating segment exist in the Fund. This is based on the information provided to the chief operating decision maker in accordance with AASB 8. The segment is deemed to be property investment.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(d) Functional and presentation currencies

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

(e) Revenue recognition

Property rental income represents income earned from the rental of Fund properties (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties.

Interest income is recognised using the effective interest rate method.

Distributions received are recognised as revenue when the right to receive payment is established.

Gains or losses on the sale of investment properties are calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and are included in the consolidated statement of comprehensive income in the year of disposal. Where revenue is obtained from the sale of properties or assets, it is recognised when the significant risks and rewards have transferred to the buyer. This will normally take place on settlement of the acquisition.

(f) Expenses

Property expenses and outgoings including rates, taxes and other property outgoings incurred in relation to investment properties where such expenses are the responsibility of the Fund are recognised on an accruals basis.

(g) Repairs and maintenance

Repairs and maintenance costs and minor renewals are charged as expenses when incurred. These repairs and maintenance costs will consist of those that, under the relevant lease agreements, are non-recoverable from tenants.

(h) Income tax

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided its income for the year, as determined under the Fund's constitution, is fully distributable to unitholders, by way of cash.

(i) Impairment of assets

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

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

(j) Investment in Associates

Associates are entities over which the Fund has significant influence, but not control, and are accounted for using the fair value through profit or loss method. Refer Note 1(m) and Note 1(w).

(k) Cash and cash equivalents

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(l) Trade and other receivables

Receivables are initially recognised at the amounts due to the Fund. Rent and outgoings receivables are usually settled within 30 days of recognition.

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

(m) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

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

Recognition and derecognition

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

Subsequent measurement

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

Impairment

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

(n) Derivative financial instruments

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

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

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

(o) Investment properties

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(o) Investment properties (continued)

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

As the fair value method has been adopted for investment properties, the buildings and any component thereof (including plant and equipment) are not depreciated. Taxation allowances for the depreciation of buildings and plant and equipment are claimed by the Fund and contribute to the tax deferred component of distributions.

(p) Lease incentives

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

(q) Trade and other payables

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

(r) Provisions

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

(s) Borrowings

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

(t) Borrowing costs

Borrowing costs, excluding interest expense, are recorded against borrowings and amortised in the statement of comprehensive income over the term of the borrowing using the effective interest rate method.

(u) Contributed equity

Units on issue are classified as equity and recognised at the fair value of the consideration received by the Fund. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

(v) Distributions paid and payable

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

(w) Fair value estimation

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(w) Fair value estimation (continued)

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

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

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

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

(x) Goods and Services Tax (GST)

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

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

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

(y) Parent entity financial information

The financial information for the parent entity, Charter Hall Direct Industrial Fund, disclosed in Note 16 has been prepared on the same basis as the Fund's financial statements except as set out below:

(i) Investments in controlled entities

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

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

(ii) Receivables and payables

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

(iii) Recoverable amount of assets

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

1 Summary of significant accounting policies (continued)

(z) Impact of new standards and interpretations issued but not yet adopted by the Fund

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

(i) AASB 9 *Financial Instruments*

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

(aa) Comparative information

Where necessary, comparative information has been adjusted to conform with changes in presentation in the current year.

(ab) Rounding of amounts

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

2 Distributions paid or payable

	2014		2013	
	Cents per unit	**$'000**	Cents per unit	$'000
Ordinary unitholders				
30 September	**2.10**	**2,529**	2.03	2,441
31 December	**2.10**	**2,529**	2.03	2,439
31 March	**2.10**	**2,529**	2.03	2,439
30 June	**2.10**	**2,529**	2.03	2,439
	8.40	**10,116**	8.12	9,758

The Fund had a distribution payable balance of $2,529,341 for the quarter ended 30 June 2014 and $2,439,012 for the quarter ended 30 June 2013.

3 Cash and cash equivalents

	2014 $'000	2013 $'000
Cash and cash equivalents	**1,401**	2,746
	1,401	2,746

Interest is receivable monthly in arrears. At 30 June 2014 the interest rate on the cheque account was 2.50% p.a. (2013: 2.75% p.a.).

4 Receivables

	2014 $'000	2013 $'000
Current		
Trade receivables	**15**	438
GST receivables	**-**	97
Distribution receivable	**303**	1,519
Other receivables	**5**	-
	323	2,054

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

5 Other assets

	2014 $'000	2013 $'000
Current		
Prepayments	**122**	382
	122	382

6 Investment properties

As at 30 June 2014, the investment properties have been valued as set out below:

Properties	Acquisition date	Date of latest independent valuation	Independent valuation $'000	2014 Fair value $'000	2013 Fair value $'000
13-20 Horsburgh Drive, Altona North, VIC	02/07/10	31/12/13	28,100	**28,100**	26,750
25-27 Richland Street Kingsgrove, NSW	05/11/10	31/12/13	16,900	**16,900**	16,800
450 Sherbrooke Road, Willawong, QLD	23/12/10	31/12/13	33,250	**33,250**	31,950
364-426 Old Geelong Road, Hoppers Crossing, VIC*	22/06/12	30/06/14	43,350	**43,350**	40,700
29-47 Mudgee Street, Kingston QLD	12/09/12	31/12/13	22,900	**22,900**	21,000
76-80 Howards Road, Beverley SA	17/12/12	31/12/13	29,000	**29,000**	27,150
Total			173,500	**173,500**	164,350

The below table illustrates the key valuation assumptions used in the determination of the investment properties fair value:

	2014	2013
Weighted average capitalisation rate	**7.70%**	7.99%
Weighted average lease expiry (years)	**11.5**	12.2
Vacancy rate	**0%**	0%

More information on the key valuation assumptions can be found in Note 18 (d).

Reconciliation of the carrying amount of investment properties at the beginning and end of the financial year is set out below:

	2014 $'000	2013 $'000
Opening balance	**164,350**	111,150
Purchases	**-**	51,778
Capital expenditure	**148**	(1,214)
Rental guarantee	**(787)**	-
Straightlining of rental income	**2,191**	1,669
Net fair value movements on investment properties	**7,598**	967
Closing balance	**173,500**	164,350

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

	2014 $'000	2013 $'000
Less than 1 year	**15,518**	14,417
1 to 5 years	**67,537**	62,558
Over 5 years	**117,070**	130,436
Closing balance	**200,125**	207,411

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

7 Financial assets at fair value through profit or loss

	2014 $'000	2013 $'000
Investment in Associates		
Opening balance	**22,682**	19,578
Acquisition	**-**	2,506
Net fair value movements on financial assets	**3,055**	598
Closing balance	**25,737**	22,682

The individual financial statement for the financial asset is shown below:

	2014 $'000	2013 $'000
Summarised balance sheet		
Current assets	**83**	4,062
Non current assets	**196,000**	183,500
Current liabilities	**2,173**	6,726
Non current liabilities	**90,960**	90,108
Net assets	**102,950**	90,728
Summarised statement of comprehensive income		
Revenue	**20,482**	18,561
Profit for the year	**22,011**	18,829
Other comprehensive income	**-**	-
Total comprehensive income	**22,011**	18,829

This investment represents 25% of the Perth RDC Trust, which holds the Coles Distribution Centre at Perth Airport.

Perth RDC Trust has no capital commitments and no contingent liabilities at the end of the financial year (2013: nil).

8 Derivative financial instruments

	2014 $'000	2013 $'000
Non-current assets		
Interest rate swaps	**-**	120
	-	120
Non-current liabilities		
Interest rate swaps	**157**	-
	157	-

Interest rate swaps

The Fund has entered into interest rate swaps totalling $37.5 million (2013: $37.5 million) that entitle it to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount. The interest rate swap agreements allow the Fund to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

Hedge accounting has not been applied to the interest rate swaps and accordingly, changes in the fair value of the swap contracts are recorded in the statement of comprehensive income. Notwithstanding the accounting outcome, the responsible entity considers that these contracts are appropriate and effective in offsetting the economic interest rate exposures of the Fund.

The Fund had also rolled the $37.5 million interest rate swap extending the expiratory date from February 2016 to February 2017.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

8 Derivative financial instruments (continued)

Interest rate swaps (continued)

As at 30 June, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	2014 $'000	2013 $'000
2 - 3 years	**37,500**	37,500
	37,500	37,500

9 Payables

	2014 $'000	2013 $'000
Current		
Fund management fee payable	**108**	-
GST payable	**5**	-
Interest payable	**133**	151
Accruals	**333**	604
	579	755

10 Other liabilities

	2014 $'000	2013 $'000
Current		
Income received in advance	**506**	683
	506	683

11 Distribution payable

	2014 $'000	2013 $'000
Distribution payable		
Opening balance	**2,439**	2,036
Distributions declared	**10,116**	9,758
Distributions paid	**(10,026)**	(9,355)
Closing balance	**2,529**	2,439

The distribution payable at 30 June 2014 represents the distribution for the quarter ended 30 June 2014. The distribution to Fund's unitholders was paid on 21 July 2014.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

12 Borrowings

	2014 $'000	2013 $'000
Current		
Bank loan	**-**	73,621
Unamortised borrowing cost	**-**	(273)
	-	73,348
Non-current		
Bank loan	**70,500**	-
Unamortised borrowing cost	**(594)**	-
	69,906	-

The Fund's debt facility is held with a major Australian financier. The facility has floating interest rates and a total limit of $75,000,000. The facilities are secured by a registered mortgage over the properties and a fixed and floating charge over the Fund's assets. The debt facility was refinanced in August 2013 and extended to July 2016.

As at 30 June, the Fund had access to:

	2014 $'000	2013 $'000
Credit facilities		
Cash advance facilities	**75,000**	75,000
Drawn balance	**(70,500)**	(73,621)
Undrawn balance	**4,500**	1,379

13 Contributed equity

	2014 $'000	2013 $'000
Opening balance	**119,175**	100,568
Application	**-**	18,607
Closing balance	**119,175**	119,175

	2014 Units	2013 Units
Opening balance	**120,445,046**	101,787,052
Unit issued during the year	**-**	18,657,994
Closing balance	**120,445,046**	120,445,046

As stipulated in the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

14 Retained earnings / (Accumulated losses)

	2014 $'000	2013 $'000
Opening balance	**(4,066)**	(5,084)
Profit for the year	**22,413**	10,776
Distributions paid and payable	**(10,116)**	(9,758)
Closing balance	**8,231**	(4,066)

15 Reconciliation of profit to net cash flows

	2014 $'000	2013 $'000
Profit for the year	**22,413**	10,776
Non-cash items		
Net fair value movements on investment properties	**(7,598)**	(967)
Net fair value movements on financial assets	**(3,055)**	(598)
Net fair value movements on derivatives	**275**	244
Straightlining of rental income	**(2,191)**	(1,669)
Amortisation of borrowing costs	**459**	342
Other		
Lease incentives/site access fees treated as a return on investment	**787**	1,214
Decrease/(increase) in receivables	**1,991**	(1,095)
Increase/(decrease) in payable	**(1,131)**	738
Net cash flow from operating activities	**11,950**	8,985

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

16 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 $'000	2013 $'000
Assets		
Current assets	**891**	1,920
Non current assets	**146,660**	163,952
Total assets	**147,551**	165,872
Liabilities		
Current liabilities	**2,949**	76,076
Non current liabilities	**69,906**	-
Total liabilities	**72,855**	76,076
Net assets	**74,696**	89,796
Equity		
Contributed equity	**119,174**	118,675
Accumulated losses	**(44,478)**	(28,879)
Total equity	**74,696**	89,796
Loss for the year	**(5,482)**	(5,189)
Total comprehensive income	**(5,482)**	(5,189)

(b) Guarantees entered into by the parent entity

The parent entity has not provided any guarantees in relation to the debts of its subsidiaries as at 30 June 2014 or 30 June 2013.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

(d) Contractual commitments for the acquisition of property, plant and equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment as at 30 June 2014 or 30 June 2013.

(e) Directors fees

The parent entity paid directors fees of $20,939 to Charter Hall Direct Property Management Limited (2013: $23,813).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

17 Capital and financial risk management

(a) Capital risk management

The Fund's objectives when managing capital are to optimise unitholder value through the mix of available capital sources whilst complying with distribution requirements, maintaining gearing and interest cover ratios within approved limits and continuing to operate as a going concern.

The Fund assesses its capital management approach as a key part of its overall strategy and is monitored by management and the Board.

The Fund is able to alter its capital mix by issuing new units, adjusting the amount of distributions paid, activating a unit holder buyback program or selling assets to reduce borrowings.

The Fund has a target gearing level of up to 45% of debt to total assets. At 30 June 2014, gearing was 35.1% (2013: 38.3%) and is calculated as drawn borrowings divided by total assets.

The Fund also protects its assets by taking out insurance with creditworthy insurers.

(b) Financial risk management

The Fund's principal financial instruments comprise cash and cash equivalents, trade and other receivables, derivative financial instruments, payables and borrowings.

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund manages its exposure to these financial risks in accordance with the Fund's Financial Risk Management (FRM) policy as approved by the Board.

The policy sets out the Fund's approach to managing financial risks, the policies and controls utilised to minimise the potential impact of these risks on its performance and the roles and responsibilities of those involved in the management of these financial risks.

The Fund uses various measures to manage exposures to these types of risks. Its exposure to floating interest rates is monitored to ensure they remain within the limits prescribed in the FRM policy. The Fund undertakes counterparty credit assessment and will seek to spread its credit exposures, where practical and commercially appropriate, by using multiple counterparties for its hedging transactions.

The Fund uses interest rate swaps to manage its financial risk as permitted under the FRM policy. Such instruments are used exclusively for hedging purposes i.e. not for trading for speculative purposes.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

17 Capital and financial risk management (continued)

(c) Market risk

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will impact the earnings of the Fund.

The Fund is exposed to interest rate risk predominantly through borrowings. The Fund applies benchmark hedging bands across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure between these bands. Compliance with policy is reviewed regularly by management and is reported to the Board each meeting.

The Fund has exposure to interest rate risk on its monetary assets and liabilities, mitigated by the use of interest rate swaps, as shown in the table below:

	2014 $'000	2013 $'000
Floating rate		
Cash and cash equivalents	**1,401**	2,746
Bank loans	**(70,500)**	(73,621)
	(69,099)	(70,875)
Derivative financial instruments		
Interest rate swaps - floating to fixed (notional amount)*	**37,500**	37,500
	37,500	37,500
Net exposure	**(31,599)**	(33,575)

* Forward starting interest rate swap is in place to extend the expiration date of existing interest rate swap from February 2016 to February 2017

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, while a positive amount reflects a potential net increase. The sensitivity analysis includes impact on the swap mark to market movements and was performed on the same basis at 30 June 2013.

	2014 $'000	2013 $'000
Sensivitity		
Profit		
BBSW +1%	**542**	521
BBSW -1%	**(553)**	(547)
Equity		
BBSW +1%	**542**	521
BBSW -1%	**(553)**	(547)

At balance date the Fund has fixed 53.2% (2013: 50.9%) of its net floating interest rate exposure, through the use of interest rate swaps.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

17 Capital and financial risk management (continued)

(d) Liquidity risk

Liquidity risk arises if the Fund has insufficient liquid assets to meet its short term obligations. Liquidity risk is managed by maintaining sufficient cash balances and adequate committed credit facilities. Prudent liquidity management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The instruments entered into by the Fund were selected to ensure sufficient funds would be available to meet the ongoing cash requirements of the Fund.

The following table provides the contractual maturity of the Fund's fixed and floating rate financial liabilities and derivatives as at 30 June 2014. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Book value $'000	**Less than 1 year $'000**	**1 to 2 years $'000**	**2 to 3 years $'000**	**Total $'000**
2014					
Financial liabilities					
Derivative financial instruments	**157**	**76**	**50**	**31**	**157**
Payables	**579**	**579**	**-**	**-**	**579**
Distribution payable	**2,529**	**2,529**	**-**	**-**	**2,529**
Borrowings	**69,906**	**1,840**	**2,435**	**70,700**	**74,975**
Other liabilities	**506**	**506**	**-**	**-**	**506**
Total undiscounted financial liabilities	**73,677**	**5,530**	**2,485**	**70,731**	**78,746**

	Book value $'000	Less than 1 year $'000	1 to 2 years $'000	2 to 3 years $'000	Total $'000
2013					
Financial assets					
Derivative financial instruments	120	(75)	51	157	133
Total undiscounted financial assets	120	(75)	51	157	133
Financial liabilities					
Payables	755	755	-	-	755
Distribution payable	2,439	2,439	-	-	2,439
Borrowings	73,348	75,808	-	-	75,808
Other liabilities	683	683	-	-	683
Total undiscounted financial liabilities	77,225	79,685	-	-	79,685

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

17 Capital and financial risk management (continued)

(e) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Fund to make a financial loss. The Fund has exposure to credit risk on all of its financial assets included in the Fund's balance sheet.

The Fund manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears.

The Fund is exposed to credit risk on financial instruments and derivatives. There is only a credit risk where the contracting entity is liable to pay the Fund in the event of a close out. The Fund has policies that limit the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to investment grade counterparties in accordance with the Fund's FRM policy. The Fund monitors the public credit rating of its counterparties.

The Fund has policies to review the aggregate exposures of debtors and tenancies across its portfolio. The Fund has no significant concentrations of credit risk on its trade receivables. At 30 June 2014, the largest individual lease represents 24.5% (2013: 19.4%) of the total portfolio income. The Fund holds collateral in the form of security deposits or bank guarantees, over some receivables.

All cash and cash equivalents, derivative financial instruments and other receivables (apart from rent receivable) are neither past due or not impaired. The table below shows the ageing analysis of those receivables (rent receivable) which are past due or impaired:

	Past due but not impaired					
	Less than 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 90 days $'000	Impaired $'000	Total $'000
2014						
Receivables	**4**	**-**	**10**	**6**	**-**	**20**
	4	**-**	**10**	**6**	**-**	**20**
2013						
Receivables	438	-	-	-	-	438
Receivables	438	-	-	-	-	438

There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

18 Fair value measurements

(a) Recognised fair value measurements

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments (Refer to Note 8); and
- Investment properties (Refer to Note 6).
- Investment in financial asset (Refer to Note 7)

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

i Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

ii Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

iii Level 3 - Inputs for the asset or liability that are not based on observable market data.

The following table presents the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2014:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Investment in financial assets at fair value	**-**	**-**	**25,737**	**25,737**
Non-financial assets - recurring fair value measurement				
Investment properties	**-**	**-**	**173,500**	**173,500**
Total assets	**-**	**-**	**199,237**	**199,237**
Financial liabilities - recurring fair value measurement				
Derivative financial instruments	**-**	**157**	**-**	**157**
Total liabilities	**-**	**157**	**-**	**157**

The following table presents the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2013:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Investment in financial assets at fair value	-	-	22,682	22,682
Derivative financial instruments	-	120	-	120
Non-financial assets - recurring fair value measurement				
Investment properties	-	-	164,350	164,350
Total assets	-	120	187,032	187,152

There were no transfers between levels of fair value measurement during the year.

The fair value accounting policy of the Fund's derivative financial instruments and financial assets is disclosed in Note 1(w).

Changes in level 3 investment properties is disclosed in Note 6.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

18 Fair value measurement (continued)

(a) Recognised fair value measurements (continued)

The following table represents changes in the level 3 financial assets:

	2014 **$'000**	2013 $'000
Opening balance	**22,682**	19,578
Acquisition	**-**	2,506
Net fair value movements	**3,055**	598
Closing balance	**25,737**	22,682

(b) Disclosed fair value

The fair value of derivative financial instruments is disclosed in the balance sheet. The carrying amounts of receivables and payables are assumed to approximate their fair value due to their short-term nature.

The following table represents the carrying amounts and fair value of borrowings at 30 June 2014 and 30 June 2013. Their fair value is estimated by discounting the future contractual cash flows at the current market interest rate curve since quoted prices are not available.

	2014		2013	
	Carrying amount **$'000**	**Fair value** **$'000**	Carrying amount $'000	Fair value $'000
Current				
Bank loans	**-**	**-**	73,621	73,629
	-	**-**	73,621	73,629
Non-current				
Bank loans	**70,500**	**70,508**	-	-
	70,500	**70,508**	-	-

(c) Valuation techniques used to derive level 2 fair values

The fair value of derivative financial instruments is estimated internally using generally acceptable valuation models based on discounted cash flow analysis using quoted market inputs (i.e., interest rates, forward rates, etc.) adjusted for specific features of the derivative and debit or credit valuation adjustments to reflect creditworthiness of the Fund or the Fund's counterparty.

Credit value adjustments are based on the counterparty's credit risk using counterparty's credit default swap curve as a benchmark.

Debit value adjustments are based on the Fund's credit risk using debt financing available to the Fund as a benchmark.

(d) Valuation techniques used to derive level 3 fair values

In determining fair values of investment properties the management has considered the nature, characteristics and risks of its investment properties as well as the level of the fair value hierarchy.

Class of property	Fair value hierarchy	Fair value as at 30 June 2014 $'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs
Recurring fair value adjustments					
Industrial	Level 3	**173,500**	DCF and income capitalisation method	Net market rent (per sqm p.a.) Adopted capitalisation rate Adopted termination yield Adopted discount rate	$68.08 - $912.15 7.50% - 8.00% 7.75% - 8.50% 9.25% - 9.75%

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

18 Fair value measurement (continued)

(d) Valuation techniques used to derive level 3 fair values (continued)

In determining fair values of investment properties the management has considered the nature, characteristics and risks of its investment properties as well as the level of the fair value hierarchy.

Class of property	Fair value hierarchy	Fair value as at 30 June 2014 $'000	Valuation technique
Recurring fair value adjustments			
Financial asset	Level 3	**25,737**	The fair value of the financial asset is the Fund's share of the fair value of the underlying investment property held by the associate. The underlying investment property has been fair valued using similar methodology applied for the other investment properties directly held by the Fund.

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

The adopted valuation for investment property portfolios generally reflects a value somewhere between the valuations determined using discounted cash flow (DCF) method and the income capitalisation method.

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

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

Carrying values of all investment properties measured at recurring fair value reflect the highest and best use value.

Sensitivity analysis

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Gross market rent (per sqm p.a.)	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted termination yield	Increase	Decrease
Adopted discount rate	Decrease	Increase

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

19 Remuneration of auditors

During the year the auditor of the Fund, PricewaterhouseCoopers, Australian firm earned the following remuneration:

	2014 $	2013 $
Audit services	**33,120**	37,610

20 Related party transactions

(a) Responsible entity

The responsible entity of the Fund is Charter Hall Direct Property Management Limited.

The registered office of the responsible entity is Level 20, 1 Martin Place, Sydney NSW 2000.

(b) Directors

The following persons have held office as directors of the responsible entity during the year and up to the date of this report:

- Peeyush Gupta - Chairman and Non-Executive Independent Director
- Cedric Fuchs - Executive Director
- David Harrison - Executive Director
- Rick Higgins - Non-Executive Independent Director
- Ian Pratt - Non-Executive Independent Director
- David Southon - Executive Director
- Richard Stacker - Alternate to David Harrison and David Southon

(c) Parent entity

The parent entity of the Fund is Charter Hall Direct Industrial Fund.

(d) Fund management fees

Of the total base management fees, Charter Hall Holdings Pty Limited received remuneration of $1,301,951 (2013: $1,158,977) from the consolidated entity. At 30 June 2014, Fund management fee payable to Charter Hall Holdings Pty Limited was $108,119 (2013: nil). No performance fee was earned by the responsible entity during the year. Refer to Note 20(g) for more information.

(e) Transactions with related parties of the responsible entity

At 30 June 2014, Charter Hall Property Trust holds 228,575 (2013: 228,575) Ordinary units in the Fund. The distributions paid or payable to Charter Hall Property Trust for the year ended 30 June 2014 amounted to $19,200 (2013: $18,560). The distribution amount payable at 30 June 2014 was $4,800 (2013: $4,630).

Charter Hall Holdings Pty Limited received $150,000 (2013: $166,000) for the provision of accounting services during the year.

Charter Hall Holdings Pty Limited earned debt arranger fees of $390,000 (2013: nil).

Charter Hall Holdings Pty Limited received $39,500 (2013: $22,000) for development management fees in connection to the works undertaken on the properties.

For the year ended 30 June 2014, Charter Hall Holdings Pty Limited received property management fees of $183,516 (2013: $115,474).

The above transactions were based on normal commercial terms and conditions and there were no other amounts outstanding at 30 June 2014 (2013: nil) other than as disclosed in Note 20 (d) and 20 (e).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

20 Related party transactions (continued)

(f) Key management personnel

Key management personnel (KMP) are defined in AASB 124 Related Party Disclosures as those having authority and responsibility for planning, directing and controlling the activities of the entity. The responsible entity meets the definition of key management personnel as it has this authority in relation to the activities of the Fund. The Fund paid directors fees of $20,939 to the responsible entity.

(g) Key management personnel compensation

Fund management fees

The Responsible entity of the Fund is Charter Hall Direct Property Management Limited. The Responsible Entity appoints Charter Hall Holdings as the manager. Under the terms of the Fund Constitution, the manager is entitled to receive the following remuneration from the Fund, comprising a base fee and a performance fee:

(i) Base fee

The manager is entitled to an annual base management fee of 0.60% of the unitholders gross assets. This is the maximum base management fee that can be charged or deferred under the Constitution. If any fee is deferred, the fees will accrue until paid.

(ii) Performance fee

In addition to the base fee, the manager is entitled to a performance fee of 15% of the portion of the outperformance of the Fund over an equity return hurdle IRR of 10% per annum. It is calculated from the first allotment date to the earlier of the conclusion of the Fund's initial seven-year term and the wind up of the Fund. If applicable, it is payable upon the conclusion of the Fund's initial seven-year term if the Fund is continued for the extension period and/or the wind up or sale of the Fund. The IRR calculation will reset so that the next calculation period will be from the beginning of the extension period to the wind up of the Fund.

(iii) Manager's fee calculation

The total Manager's fee for the period is detailed as follows:

	2014 **$**	2013 $
Base fee	**1,301,951**	1,158,977

The amount payable to the Manager at 30 June is shown in Note 9.

There was no entitlement to a performance fee in the year ended 30 June 2014 (2013: nil).

(h) Director equity holdings

The number of units held by the Directors of the responsible entity in office at 30 June 2014, (directly or indirectly) is set out below:

	2014 **Units**	2013 Units
Cedric Fuchs	**354,752**	354,752
Peeyush Gupta	**400,882**	400,882
David Southon	**252,755**	252,755
Richard Stacker	**20,056**	20,056
	1,028,445	1,028,445

(i) Related party equity holdings

The Fund holds no equity units in any related parties.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2014

21 Commitments

(a) Capital commitments

No capital expenditure was contracted for at the reporting date on the investment properties but not recognised as liabilities (2013: nil).

(b) Other commitments

The Fund has no other commitments at the end of the financial year (2013: nil).

22 Contingent liabilities

The Fund has no contingent liabilities at the end of the financial year (2013: nil).

23 Events occurring after reporting date

The directors of the responsible entity are not aware of any matter or circumstance not otherwise dealt with in this report or the financial report that has significantly affected or may significantly affect the operations of the Fund, the results of its operations or the state of affairs of the Fund in financial years subsequent to the year ended 30 June 2014.

Directors' declaration to unitholders

In the opinion of the directors of Charter Hall Direct Property Management Limited, the responsible entity of Charter Hall Direct Industrial Fund:

a the financial statements and notes set out on pages 7 to 34 are in accordance with the Corporations Act 2001, including:

   i complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   ii giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

b There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director

Sydney

20 August 2014

Independent auditor's report to the members of Charter Hall Direct Industrial Fund

Report on the financial report

We have audited the accompanying financial report of Charter Hall Direct Industrial Fund (the Fund), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Charter Hall Direct Industrial Fund group (the consolidated entity). The consolidated entity comprises the Fund and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Charter Hall Direct Property Management Limited (the responsible entity) 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply *with International Financial Reporting Standards* as issued by the International Accounting Standards Board.

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 consolidated entity's preparation and fair presentation of the financial report 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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pwc

Auditor's opinion

In our opinion:

(a) the financial report of Charter Hall Direct Industrial Fund is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
20 August 2014