Charter Hall

12-26 Franklin Street Property Trust

ABN: 34 563 344 540

Financial report

For the year ended 30 June 2014

Financial statements
for the year ended 30 June 2014

Contents

Directors' report 2
Consolidated statement of comprehensive income 5
Consolidated balance sheet 6
Consolidated statement of changes in equity 7
Consolidated cash flow statement
1. Summary of significant accounting policies 9
2. Profit for the year 15
3. Distributions paid and payable 16
4. Cash and cash equivalents 17
5. Receivables 17
6. Derivative financial instruments 17
7. Investment properties 18
8. Payables 18
9. Other liabilities 18
10. Borrowings 19
11. Contributed equity 19
12. Retained profits 21
13. Cash flow information 21
14. Auditor's remuneration 21
15. Capital commitments 21
16. Contingent liabilities 21
17. Events subsequent to reporting date 21
18. Parent entity information 22
Directors' declaration to unitholders 23
Independent auditor's report to the unitholders of 12-26 Franklin Street Property Trust 24

Cover photograph: 12 – 26 Franklin Street, Adelaide.

Directors' report
for the year ended 30 June 2014

The Directors of Charter Hall Wholesale Management Limited (Trustee), the trustee of 12-26 Franklin Street Property Trust (FSPT), present their report together with the consolidated financial statements of FSPT and its controlled entities (together, the Trust) for the year ended 30 June 2014.

Charter Hall Wholesale Management Limited (CHWML) was appointed as Trustee on 9 April 2014 and the previous trustee, Aspen Fund Management Limited retired on 9 April 2014.

Principal activities

The principal activity of the Trust during the financial year was property investment. There were no significant changes in the nature of the Trust's activities during the financial year.

Directors

The following persons have held office as Directors of the Trustee from the date of appointment, 9 April 2014, and up to the date of this report, unless otherwise stated:

- David Harrison - Executive Chairman
- David Southon - Executive Director
- Adrian Taylor - Executive Director

The following persons have held office as Directors of the former trustee, Aspen Funds Management Limited, from 1 July 2013 to the date of retirement, 9 April 2014:

- Frank Zipfinger - Non-Executive Chairman
- Clive Appleton - Non-Executive Director
- Guy Farrands - Non-Executive Director
- Clem Salwin - Executive Director

Distributions

The distributions of income to unitholders for the financial year ended 30 June 2014 was $6,415,000 (2013: $8,780,000).

Review and results of operations

The Trust's profit for the year ended 30 June 2014 was $31,001,000 (2013: $22,294,000).

The performance of the Trust, as represented by the results of their operations for the year, was as follows:

	2014 $'000	Restated 2013 $'000
Net property income	**17,404**	9,819
Straightlining of rental income	**(2,698)**	-
Interest and other income	**29**	72
Finance costs	**(8,306)**	(6,740)
Management fees and other expenses	**(391)**	(289)
Rental support	**1,152**	-
Coupon interest on investment property	**-**	5,995
Operating earnings	**7,190**	8,857
Non operating items		
Net (loss)/gain from derivative financial instruments	**(1,795)**	101
Valuation gain on investment property	**24,060**	19,331
Straightlining of rental income	**2,698**	-
Rental support	**(1,152)**	-
Coupon interest on investment property	**-**	(5,995)
Profit for the year	**31,001**	22,294

Directors' report
for the year ended 30 June 2014

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

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

Significant change in the state of affairs

During the year, the convertible note facility was subject to early redemption and was refinanced partly through the increase in the cash advance facility and partly through the issue of new equity of $4,247,000 to each unitholder.

During the year, the cash advance facility agreement was amended and restated, extending the maturity to June 2018 and increasing the facility limit from $117,600,000 to $139,300,000.

On 18 February 2014, two subsidiary entities, FSPT Site 7 Trust and FSPT GPO Trust were established. Each entity issued 10 units at $1 per unit.

On 9 April 2014, the Trust's unitholder, Aspen Property Trust sold its units to CPOF FSPT Trust.

On 9 April 2014, Aspen Funds Management Limited retired as trustee and Charter Hall Wholesale Management Limited was appointed as Trustee of the Trust.

On 27 June 2014, the various conditions relating to the vendors ability to terminate the contract for sale of the 2-10 Franklin Street and 145-159 King William Street, Adelaide properties, were satisfied. The remaining conditions over the purchase are controlled by the Trust, at its sole discretion. As a result, the property has been recognised as part of investment properties at year end.

Matters subsequent to the end of the financial year

Since the end of the financial year, the Directors of the Trustee are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly affected or may significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust in the financial years subsequent to the year ended 30 June 2014.

Units in the Trust

The movement in units on issue in the Trust during the year is disclosed in Note 11 to the financial statements.

The number of units on issue at 30 June 2014 was made up of 34,620,202 (2013: 29,611,106) ordinary units and 20 (2013: nil) "B" Class units.

Likely developments and expected results of operation

At the time of making this report, it is anticipated that there will be no material change in the results of the Trust from the current financial year.

Directors' Indemnification

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of the Trustee or the auditor of the Trust. So long as the officers of the Trustee act in accordance with the Trust Constitution and the Corporations Act 2001, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust.

Environmental regulations

To the best of the Directors' knowledge, the operations of the Trust have been undertaken in compliance with the applicable regulations of the Commonwealth and each Australian State or Territory where the Trust operates.

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' Report and financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

Directors' report
for the year ended 30 June 2014

This report is made in accordance with a resolution of the Board of Directors of Charter Hall Wholesale Management Limited.

Director
Sydney

19 September 2014

Financial statements
for the year ended 30 June 2014

Consolidated statement of comprehensive income

	Note	2014 $'000	Restated 2013 $'000
Income			
Property rental income		**20,350**	12,217
Valuation gain on investment property		**24,060**	19,331
Interest income	2(a)	**29**	61
Net gain from derivative financial instruments	2(d)	**-**	101
Other income		**-**	11
Total income		**44,439**	31,721
Expenses			
Property expenses		**(2,946)**	(2,398)
Finance costs	2(b)	**(8,306)**	(6,740)
Management fees	2(c)	**(341)**	(177)
Net loss from derivative financial instruments	2(d)	**(1,795)**	-
Other expenses	2(e)	**(50)**	(112)
Total expenses		**(13,438)**	(9,427)
Profit for the year		**31,001**	22,294
Other comprehensive income		**-**	-
Total comprehensive income for the year		**31,001**	22,294
Profit attributable to the unitholders of the Trust		**31,001**	22,294
Distributions paid and payable	3	**6,415**	8,780

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

Financial statements
as at 30 June 2014

Consolidated balance sheet

	Note	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	4	**4,402**	977
Receivables	5	**23**	60
Other assets		**-**	133
Total current assets		**4,425**	1,170
Non-current assets			
Investment properties	7	**236,606**	199,000
Derivative financial instruments	6	**-**	101
Total non-current assets		**236,606**	199,101
Total assets		**241,031**	200,271
Current liabilities			
Payables	8	**13,047**	440
Distribution payable	3	**1,771**	480
Other liabilities	9	**2,265**	1,152
Total current liabilities		**17,083**	2,072
Non-current liabilities			
Borrowings	10	**126,618**	147,001
Derivative financial instruments	6	**1,724**	-
Other liabilities	9	**-**	672
Total non-current liabilities		**128,342**	147,673
Total liabilities		**145,425**	149,745
Net assets		**95,606**	50,526
Equity			
Contributed equity	11	**51,494**	31,000
Retained profits	12	**44,112**	19,526
Total equity		**95,606**	50,526

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

Financial statements
for the year ended 30 June 2014

Consolidated statement of changes in equity

	Note	Contributed Equity $'000	Retained Profits $'000	Total $'000
Balance at 1 July 2012		61,000	6,012	67,012
Total comprehensive income		-	22,294	22,294
Transactions with equity holders in their capacity as equity holders:				
Distributions paid and payable	3	-	(8,780)	(8,780)
Redemption of units	11	(30,000)	-	(30,000)
Balance at 30 June 2013		31,000	19,526	50,526
Total comprehensive income		**-**	**31,001**	**31,001**
Transactions with equity holders in their capacity as equity holders:				
Distributions paid and payable	3	**-**	**(6,415)**	**(6,415)**
Contributions of equity, net of issue costs	11	**20,494**	**-**	**20,494**
Balance at 30 June 2014		**51,494**	**44,112**	**95,606**

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

Financial statements
for the year ended 30 June 2014

Consolidated cash flow statement

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Property rental income received		**21,227**	14,038
Property expenses paid		**(2,959)**	(7,744)
Other operating expenses paid		**(196)**	-
Finance costs paid		**(8,135)**	(7,499)
Interest received		**29**	976
Net tax payment to taxation authorities		**(1,611)**	673
Net cash flows from operating activities	13(a)	**8,355**	444
Cash flows from investing activities			
Payments for investment property		**-**	(16,550)
Net cash flows from investing activities		**-**	(16,550)
Cash flows from financing activities			
Proceeds from issue of units		**20,494**	-
Redemption of units		**-**	(30,000)
Proceeds from borrowings		**21,700**	53,552
Repayment of borrowings		**(42,000)**	-
Distributions paid to unitholders		**(5,124)**	(8,300)
Net cash flows from financing activities		**(4,930)**	15,252
Net increase/(decrease) in cash and cash equivalents		**3,425**	(854)
Cash and cash equivalents at the beginning of the year		**977**	1,831
Cash and cash equivalents at the end of the year	4	**4,402**	977

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

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. This report covers the 12-26 Franklin Street Property Trust (FSPT) consolidated entity consisting of FSPT and its controlled entities (together, the Trust).

The registered office and principal place of business of the Trust is, Level 20, 1 Martin Place, Sydney NSW 2000.

(a) Basis of preparation

Special purpose financial report

In the opinion of the Directors of Charter Hall Wholesale Management Limited, the Trust is not a reporting entity, as it is unlikely that users exist who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. The financial report of the Trust has been drawn up as a special purpose financial report for the purposes of fulfilling the requirements of the constitution of the Trust Deed dated 13 October 2010.

The financial report has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards and other mandatory professional requirements in Australia. It contains only those disclosures considered necessary by the Directors to meet the needs of the unitholders. The Trust is a for-profit entity for the purpose of preparing the financial statements.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments held at fair value.

Restatement of 2013 comparative financial information

The 12-26 Franklin Street Property Trust comparative financial statements have been restated to reclassify an amount previously recognised as interest income to valuation gain on investment property. The financial effect of the restatement is to increase the valuation gain on investment property and decrease interest income for the year ended 30 June 2013 by $5.995 million. The adjustment is only a reclassification and has no impact on the Trust's net assets or profit attributable to the unitholders of the Trust. The reason for the adjustment is to ensure the comparative information is presented in accordance with applicable Australian Accounting Standards. There is no impact on the operating earnings of the Trust.

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards may require the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than estimates relating to the estimation of fair values described in Note 1(d), 1(g) and 1(p), no key assumptions concerning the future, or other estimation of uncertainty at the reporting date, have a significant risk of causing material adjustments to the financial statements in the period.

New and amended accounting standards adopted

The Trust has applied the following standards and amendments for the first time for the annual reporting period commencing on 1 July 2013. The affected policies and standards are:

- Principles of consolidation – new standards AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*; and
- Fair value measurement – new standard AASB 13 *Fair Value Measurement*.

Other new standards that are applicable for the first time for the June 2014 financial statements are AASB 2012–2 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* and AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*. These standards have introduced new disclosures for the financial statements but did not affect the Trust's accounting policies or any of the amounts recognised in the financial statements.

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Principles of consolidation – subsidiaries and joint arrangements

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. Under the new principles, the Trust controls an entity when the Trust 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 over the entity. The Trust has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No material differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Trust does not have any joint arrangements.

Fair value measurements

AASB 13 was released in September 2011. It explains how to measure fair value of financial and non-financial assets and liabilities and aims to enhance fair value disclosures. The application of AASB 13 in the current period has not had a material impact on the financial position of the Trust.

Net current asset deficiency

At 30 June 2014, the Trust has a net deficiency of current assets over current liabilities of $12,658,000 (2013: $902,000). This is primarily due to the consideration payable on the land purchase of $12,000,000 which is payable within 12 months, however the land as been included in non current investment properties.

The Directors of the Trustee have continued to prepare the consolidated financial statements on a going concern basis due to the following circumstances:

- The Trust entered into an amended cash advance facility on 14 December 2013 with maturity in June 2018 and an undrawn balance of $12,000,000 which will be drawn to finance the land purchase;
- 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 $1,771,000 (2013: $480,000) of Trust distributions payable, which may be reinvested as additional units in the Trust at the discretion of the unitholders.

(b) Principles of consolidation

The consolidated financial statements of the Trust incorporate the assets and liabilities of the Trust's controlled entities as at 30 June 2014 and their results for the financial year then ended. The effects of all transactions between entities in the consolidated entity have been eliminated in full.

Controlled entities are those entities over which the Trust 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.

Non-controlling interests are those interests in partly owned subsidiaries which are not held directly or indirectly by the Trust.

Where control of an entity is obtained during a financial period, its results are included in the consolidated statement of comprehensive income from the date on which control is transferred to the Trust. Where control of an entity ceases during a financial year, its results are included for that part of the period during which control existed.

The acquisition method of accounting is used to account for business combinations.

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Trust. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Trust recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Trust's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(d) 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.

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 an 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 statement of comprehensive income in the period in which they arise.

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

The use of independent valuers is on an annual basis, or earlier, where the Manager believes there may be a material change in the carrying value of the property.

Where an independent valuation is not obtained, 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;

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(d) Investment properties (continued)

- discounted cash flow models;
- available sales evidence; and
- comparisons to valuation assignments across the market, performed by valuation professionals.

The reported fair values of investment property reflect market conditions at the end of the reporting period. While this represents the best estimates as at the reporting date, actual sale prices achieved may be higher or lower than the most recent valuation. This is particularly relevant in periods of market illiquidity or uncertainty.

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 Trust and contribute to the tax deferred component of distributions.

(e) 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 balance sheet as a component of investment properties and amortised over the term of the lease as a reduction of net property income.

(f) 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, or 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 other than those that suffered impairment are reviewed for possible reversal of the impairment at each balance date.

(g) Derivatives

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 the end of each reporting 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. The Trust 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 quality as effective hedging, the Trust 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 Trust 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 fair values or cash flows of hedged items.

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

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(h) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Trust. The amounts are unsecured and are usually paid within 30 or 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after reporting period. They are recognised initially at their fair values and subsequently measured at amortised cost using the effective interest method.

(i) Distributions paid and payable

A liability is recognised for the amount of any distributions payable by the Trust on or before the end of the period but not distributed at balance date.

(j) Receivables

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

The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are reserved for in the period in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Trust 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.

(k) Interest bearing liabilities

Borrowings are initially recorded 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 method.

(l) Income tax

Under current Australian income tax legislation, the Trust is not liable to pay income tax provided its taxable income (including assessable realised capital gains) is fully distributed to unitholders, by way of cash or reinvestment. The liability for capital gains tax that may arise if the Australian properties were sold is not accounted for in these financial statements.

(m) Goods and services tax (GST)

Income, expenses, assets and liabilities are recognised net of the amount of GST recoverable from the tax authority. The non-recoverable GST is recognised as part of the income, expense, asset or liability. Receivables and payables are inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in receivables or payables in the balance sheet. Cash flows relating to GST are included in the consolidated cash flow statement on a gross basis.

(n) Revenue recognition

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

Interest income is recognised using the effective interest method.

Revenue is measured at the fair value of consideration received or receivable.

(o) 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 Trust are recognised on an accruals basis.

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(p) Fair value estimation

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

The fair value of financial instruments traded in active markets is determined using quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Trust 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 Trust 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 and cross currency swaps are calculated as the present value of the future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period.

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 determined by discounting the future contractual cash flows at the current market interest rate that is available to the Trust for similar financial instruments.

(q) Contributed equity

Ordinary units are classified as equity and recognised at the fair value of the consideration received by the Trust. 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.

(r) Parent entity financial information

The financial information for the parent entity, 12-26 Franklin Street Property Trust, disclosed in Note 18 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in controlled entities

Investments in controlled entities are accounted for at cost in the financial statements of the parent entity. Such investments in controlled entities 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 and associates are recognised in the parent entity’s profit or loss, rather than being 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 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 impaired to the lower amount. The impairment is expensed in the period in which it occurs.

Notes to the financial statements
for the year ended 30 June 2014

1. Summary of significant accounting policies (continued)

(s) Impact of standards issued but not yet applied by the Trust

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

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2015 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, will therefore have to be recognised directly in the statement of comprehensive income. The Trust has not yet decided when to adopt AASB 9. However, management is currently assessing the impact of the new standard.

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

(t) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand, unless otherwise indicated.

(u) Comparative figures

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

2. Profit for the year

The profit for the year includes the following items of revenue and expenses:

(a) Interest income

	2014 $'000	Restated 2013 $'000
Bank deposits	**29**	61
	29	6,056

(b) Finance costs

	2014 $'000	2013 $'000
Interest expense – cash advance facility	**6,253**	4,975
Interest expense – convertible notes	**1,156**	1,553
Interest expense – interest rate swaps	**694**	132
Amortisation of borrowing costs	**203**	80
	8,306	6,740

Notes to the financial statements
for the year ended 30 June 2014

2. Profit for the year (continued)

(c) Management fees

	2014 $'000	2013 $'000
Management fees	**341**	177

Management fees were payable by the Trust from 27 March 2013 to 9 April 2014 to Aspen Property Developments Pty Ltd, a related party of the trustee during this period, based on 0.1% of the property value. From 9 April 2014, management fees are payable to Charter Hall Holdings Pty Ltd, a related party of the Trustee, based on 0.4% of the property value.

(d) Net gains/(losses) from derivative financial instruments

	2014 $'000	2013 $'000
Gains on derivative financial instruments		
Unrealised	**-**	101
Losses on derivative financial instruments		
Unrealised	**(1,795)**	-
	(1,795)	101

(e) Other expenses

	2014 $'000	2013 $'000
Audit fees	**3**	7
Legal fees	**30**	39
Tax fees	**14**	34
Other expenses	**3**	32
	50	112

3. Distributions paid and payable

	2014 $'000	2013 $'000
2014 distributions to unitholders:		
July 2013 month distribution	**480**	
August 2013 month distribution	**480**	
September 2013 month distribution	**480**	
October 2013 month distribution	**480**	
November 2013 month distribution	**480**	
December 2013 month distribution	**480**	
1 January to 8 April 2014 distribution	**1,764**	
9 April to 30 June 2014 distribution	**1,771**	
	6,415	
2013 distributions to unitholders:		
March 2013 nine month distribution		7,340
April 2013 month distribution		480
May 2013 month distribution		480
June 2013 month distribution		480
		8,780

Notes to the financial statements
for the year ended 30 June 2014

3. Distributions paid and payable (continued)

	2014 $'000	2013 $'000
Current		
Distribution to ordinary unitholders		
Opening balance	**480**	-
Distribution declared	**6,415**	8,780
Paid during the period	**(5,124)**	(8,300)
Closing balance	**1,771**	480

The distribution payable at 30 June 2014 represents the distribution payable for the period from 9 April to 30 June 2014.

4. Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank	**4,402**	977
	4,402	977

Interest is receivable monthly in arrears. At 30 June 2014 the interest rate on these funds was 2.5% p.a.

5. Receivables

	2014 $'000	2013 $'000
Current		
Rent receivable	**23**	60
	23	60

The Trust's receivables are carried at amounts that approximate their fair value.

6. Derivative financial instruments

	2014 $'000	2013 $'000
Assets		
Non-current		
Interest rate swaps	**-**	101
	-	101
Liabilities		
Non-Current		
Interest rate swaps	**1,724**	-
	1,724	-

Interest rate swaps

The Trust has entered into an interest rate swap agreement totalling $104,625,000 (2013:$104,625,000) that entitle it to receive interest, at monthly 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 agreement has the effect of swapping the Trust's interest rate on long term borrowings from a floating rate to a fixed rate. The interest rate swap matures in June 2018.

The interest rate swap contract does not qualify for hedge accounting and accordingly, the change in fair value of the swap is recorded in the consolidated statement of comprehensive income.

Notwithstanding the accounting outcome from using the above type of derivative, the Trustee considers that the derivative contract is appropriate and helps to offset some of the interest rate exposures of the Trust.

Notes to the financial statements
for the year ended 30 June 2014

7. Investment properties

	2014 $'000	2013 $'000
Non-current		
Australian properties:		
12-26 Franklin Street, Adelaide	**215,000**	199,000
2-10 Franklin Street, Adelaide	**15,244**	-
145-159 King William Street, Adelaide	**6,362**	-
	236,606	199,000

The investment property, ATO Building, 12-26 Franklin Street, Adelaide, was last independently valued at $215,000,000 by Jones Lang LaSalle on 31 March 2014.

On 27 June 2014, the various conditions relating to the vendors ability to terminate the contract for sale of the 2-10 Franklin Street and 145-159 King William Street, Adelaide properties, were satisfied. The remaining conditions over the purchase are controlled by the Trust, at its sole discretion. As a result, the property has been recognised as part of investment properties at year end. Consideration payable of $12,000,000 is included in payables (refer Note 8) and is expected to settle during April 2015. As at 30 June 2014, the carrying value of the investment properties has been determined to be $21,606,000 in aggregate.

A reconciliation of the carrying amount of investment properties at the beginning and end of the current and previous year is set out below:

	2014 $'000	Restated 2013 $'000
Carrying amount at the beginning of the year	**199,000**	165,366
Additions	**12,000**	14,303
Straightlining of fixed contracts	**2,698**	-
Rental support	**(1,152)**	-
Net fair value movements on investment properties	**24,060**	19,331
Carrying amount at the end of the year	**236,606**	199,000

8. Payables

	2014 $'000	2013 $'000
Current		
Trade creditors	**293**	210
Interest payable	**225**	-
Indirect taxes payable	**141**	86
Sundry creditors and accruals	**388**	144
Consideration payable	**12,000**	-
	13,047	440

9. Other liabilities

	2014 $'000	2013 $'000
Current		
Advance rent	**1,593**	-
Prepaid rental support	**672**	1,152
	2,265	1,152
Non-current		
Prepaid rental support	**-**	672
	-	672

Notes to the financial statements
for the year ended 30 June 2014

10. Borrowings

	2014 $'000	2013 $'000
Non-current		
Cash advance facility	**127,300**	117,600
Less: Unamortised transaction costs	**(682)**	(599)
Convertible note facility	**-**	30,000
	126,618	147,001

Cash advance facility

During December 2013, the cash advance facility agreement was amended and restated, extending the maturity to June 2018 and increasing the facility limit from $117,600,000 to $139,300,000. The increase of $21,700,000 was used to partly fund the redemption of the convertible note facility.

The proceeds from the issue of "B" Class units on 9 April 2014 of $12,000,000 (refer note 11(b)) were used to repay the cash advance facility.

As at 30 June 2014, the cash advance facility has an undrawn balance of $12,000,000 which will be used to fund the consideration payable on the land purchase that is expected to settle in April 2015. Refer Note 8.

Convertible note facility

During the prior year, the Trust secured $30,000,000 of funding through the redemption of existing unitholders equity in the Trust. The funding was made available through the Trust entering into a convertible note facility and the unitholders provided their interest in the Trust as security to the financier.

During the current year, this convertible note facility was subject to early redemption. The redemption was financed partly through the increase in the cash advance facility of $21,700,000 and partly through the issue of new units valued at $8,494,000.

11. Contributed equity

	Note	2014 $'000	2013 $'000
Ordinary units on issue	11(a)	**39,494**	31,000
"B" Class units on issue	11(b)	**12,000**	-
		51,494	31,000

(a) Ordinary units on issue

Number of units	Details	Date of income entitlement	2014 $'000	2013 $'000
54,000,000	Units on issue	1 Jul 12		61,000
(24,388,894)	Redemption of units	14 Sep 12		(30,000)
29,611,106	Units on issue	30 Jun 13	**31,000**	31,000
5,009,096	Unit issue	28 Oct 13	**8,494**	
34,620,202	Units on issue	30 Jun 14	**39,494**	31,000

	2014 Units	2013 Units
Ordinary Units on issue, owned as follows:		
TSPL FSPT Trust	**17,310,101**	14,805,553
CPOF FSPT Trust	**17,310,101**	-
Aspen Property Trust	**-**	14,805,553
	34,620,202	29,611,106

As stipulated in the Trust Constitution, each unit represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. Each unit confers to the right to vote at meetings of unitholders, subject to any voting restrictions imposed on a unitholder under the Corporations Act 2001.

Notes to the financial statements
for the year ended 30 June 2014

11. Contributed equity (continued)

(b) "B" Class units on issue

Number of units	Details	Date of issue	**2014 $'000**	2013 $'000
-	Units on issue	1 Jul 12		-
-	Units on issue	30 Jun 13	**-**	-
20	Unit issue	9 Apr 14	**12,000**	
20	Units on issue	30 Jun 14	**12,000**	-

	2014 Units	2013 Units
"B" Class Units on issue, owned as follows:		
TSPL FSPT Trust (Issued at $1 per unit)	**10**	-
CPOF FSPT Trust (Issued at $1,200,000 per unit)	**10**	-
	20	-

As stipulated in the Trust Constitution, the "B" Class units have no voting rights and no rights to distributable income.

(c) Application price

The Application Price per ordinary unit calculated in accordance with Section 6.1(b) of the Trust Constitution is as follows:

	2014 $000	2013 $'000
Net tangible assets (under AAS) attributable to unitholders at the end of the financial year	**95,606**	50,526
Adjusted for:		
Property acquisition costs	**-**	-
Less: amortisation of property acquisition costs	**-**	-
Unrealised loss from derivative financial instruments	**1,695**	(101)
Adjusted (non AAS) net tangible assets attributable to unitholders, calculated in accordance with Section 6.1(b) of the Trust Constitution	**97,301**	50,425

	2014 $ per unit	2013 $ per unit
Application Price per ordinary unit calculated in accordance with Section 6.1(b) of the Trust Constitution as a the end of the financial year	**2.81**	1.70

The calculation of Application Price is not determined under Australian Accounting Standards but in accordance with Section 6.1(b) of the Trust Constitution. Under Section 6.1(b) of the Trust Constitution, the Trustee may determine the Application Price. The Trustee determines the Application Price by dividing Adjusted (non AAS) Net Tangible Assets by the number of units on issue.

Adjusted (non AAS) Net Tangible Assets is calculated as:

- Net Tangible Assets as calculated under AAS, plus
- Unamortised property acquisition costs (which include all actual acquisition costs incurred in acquiring the properties of the Trust subsequent to 9 April 2014, amortised over a 5 year period on a straight line basis from the date of the relevant acquisition) less
- The value of any derivative, whether it s a liability or an asset, to which the Trust may be a party that is included in the AAS Net Tangible Assets at the end of the financial year.

Notes to the financial statements
for the year ended 30 June 2014

12. Retained profits

	2014 $'000	2013 $'000
Opening balance	**19,526**	6,012
Profit for the year	**31,001**	22,294
Distributions paid and payable	**(6,415)**	(8,780)
Closing balance	**44,112**	19,526

13. Cash flow information

(a) Reconciliation of profit to net cash flows from operating activities

	2014 $'000	Restated 2013 $'000
Profit for the year	**31,001**	22,294
Non-cash items included in profit		
Straightlining of fixed contracts	**(2,698)**	-
Property revaluation increment	**(24,060)**	(19,331)
Interest from former related parties	**-**	916
Net unrealised (gains)/losses on derivative financial instruments	**1,795**	(101)
Property expenses	**-**	(57)
Change in assets and liabilities		
(Increase)/decrease in assets		
Receivables	**37**	558
Other assets	**133**	(190)
Prepaid finance expense	**(83)**	310
Increase/(decrease) in liabilities		
Payables	**637**	(5,779)
Other liabilities	**1,593**	1,824
Net cash flows from operating activities	**8,355**	444

14. Auditor's remuneration

Auditor's remuneration for auditing services in the financial year ended 30 June 2014 was $11,000 (2013: $7,500). The auditors received no other benefits.

15. Capital commitments

At balance date, the Trust has no significant capital or other commitments.

16. Contingent liabilities

At balance date, the Trust has no contingent assets or liabilities which are material either individually or as a class.

17. Events subsequent to reporting date

Since the end of the financial year, the Directors of the Trustee are not aware of any other matter or circumstance not otherwise dealt with in the financial statements or the directors' report that has significantly affected or may significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust in the financial year subsequent to 30 June 2014.

Notes to the financial statements
for the year ended 30 June 2014

18. Parent entity information

(a) Summary of financial information

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

	Parent 2014 $'000	Parent 2013 $'000
Assets		
Current assets	**4,425**	1,170
Non current assets	**215,000**	199,101
Total assets	**219,425**	200,271
Liabilities		
Current liabilities	**5,083**	2,072
Non current liabilities	**128,342**	147,673
Total liabilities	**133,425**	149,745
Equity		
Contributed equity	**51,494**	31,000
Undistributed income	**34,506**	19,526
Total equity	**86,000**	50,526
Profit for the year	**21,395**	22,294
Other comprehensive income	**-**	-
Total comprehensive income	**21,395**	22,294

The parent entity established two subsidiary entities, FSPT Site 7 Trust and FSPT GPO Trust, on 18 February 2014. Each entity issued 10 units at $1 per unit.

(b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in relation to the debt of its controlled entities.

(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 which are material either individually or as a class.

(c) Contractual commitments of the parent entity

The parent entity did not have any contractual commitments as at 30 June 2014 or 30 June 2013 which are material.

Directors' Declaration to Unitholders
for the year ended 30 June 2014

As stated in Note 1(a) to the consolidated financial statements, the Trust is not a reporting entity because, in the opinion of the directors of Charter Hall Wholesale Management Limited, the Trustee of 12-26 Franklin Property Street Trust, it is unlikely that users exist who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. This is a special purpose financial report that has been prepared to meet Trust Deed requirements.

The financial report has been prepared in accordance with Australian Accounting Standards and mandatory professional reporting requirements to the extent described in Note 1.

In the directors' opinion:

a. the financial statements and notes of 12-26 Franklin Street Property Trust as set out on pages 4 to 22:

   i. comply with Accounting standards and other mandatory professional reporting requirements to the extent described in Note 1(a); and

   ii. present fairly, the Trust's financial position as at 30 June 2014 and of its performance for the 18 months ended on that date; and

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

The financial statements and notes set out on pages 4 to 22 have been approved and adopted.

The directors are solely responsible for the information contained in the report and have determined that the accounting policies used are appropriate for internal purposes. This declaration is made in accordance with a resolution of the Board of Directors of Charter Hall Wholesale Management Limited.

Director
Sydney

19 September 2014

pwc

Independent auditor's report to the unitholders of 12-26 Franklin Street Property Trust

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of 12-26 Franklin Street Property Trust (the Trust), 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 cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the director' declaration for 12-26 Franklin Street Property Trust (the consolidated entity). The consolidated entity comprises the trust and the entities it controlled at year's end or from time to time during the financial year.

Directors of the trustee responsibility for the financial report

The directors of Charter Hall Wholesale Management Limited (the trustee) are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial statements, which forms part of the financial report, is appropriate to meet the requirements of the trust deed dated 13 October 2010 and is appropriate to meet the needs of the unitholders.

The directors of the trustee responsibility also includes such internal control as the directors of the trustee determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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 of the trustee, 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.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

pwc

Auditor's opinion

In our opinion, the financial report of 12-26 Franklin Street Property Trust gives a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist 12-26 Franklin Street Property Trust to meet the requirements of the trust deed. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the unitholders of 12-26 Franklin Street Property Trust.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
19 September 2014