

City of Brisbane Investment Corporation

# 2012 Annual Report

Audited Results



## Foreword

Reinforcing my commitment to deliver a financially responsible Council administration and support economic growth within our city, I am pleased to endorse the 2011/12 City of Brisbane Investment Corporation (CBIC) Annual Report.

For the last four years CBIC has provided strong returns for Brisbane ratepayers, despite continuing challenges of the global economic climate.

CBIC has assisted in limiting the burden on Brisbane residents and associated cost of living pressures by paying a total of \$19 million in dividends over the last three years. This direct benefit supports Council's ability to meet budgetary demands and infrastructure delivery for the people of Brisbane.

I congratulate the Board for all they have achieved over this time. During the past year, CBIC has outperformed other investment funds and similar organisations alike.

While the years best performing balanced superannuation fund achieved 6.40%\* (QSuper Balanced) in the 2012 financial year, CBIC has achieved a return of 10.04%.

CBIC's investment strategy is for continued investment in commercial property. This strategy has supported the strong return, despite being impacted by the low returns on its domestic equity funds and reduced cash instrument returns over the last year.

Again, I commend the Board for the work they have done and I look forward to CBIC's continued growth and success in serving the people of Brisbane.

*\*Source: QSuper*



**Graham Quirk**  
**Lord Mayor**

**The Right Honourable, the Lord Mayor of Brisbane,  
Councillor Graham Quirk**

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# 1 Chairman's Report

Despite the continued global economic uncertainty in the last year, the City of Brisbane Investment Corporation (CBIC) has outperformed other similar funds by achieving a 10.04% return on shareholder's equity, with a net profit of \$18.43 million.

CBIC's return remains well above the market average, including its long term investment return benchmark of CPI (1.2%) plus 4.5% to 5.5%. The 10.04% return also adds to CBIC's consistently positive returns achieved in previous years (12.48% in 2011 and 24.76% in 2010), despite a difficult financial environment in this time period.

By comparison, a recent report completed by research company Super Ratings\* concluded that median balanced superannuation funds achieved an annual return of 0.4% for the year ending 30 June 2012 and averaged 5.4% per annum over the last 10 years. The best performing balanced superannuation fund was QSuper Balanced at 6.40% over the 2012 financial year.\*

CBIC's result for 2012 was supported by strong capital growth and solid income returns on its property investments. The Board's continued strategy to invest available funds in commercial real estate assets has proven to be a sound one. Cash instruments performed steadily despite the reduction in interest rates over the year.

Return on equities was disappointing, however, this was consistent with the returns of other investors in this market. The Board has continued to maintain its focus on investment strategies and risk assessment in the current economic environment.

Prudent management guidelines are applied to all decision making processes. These include frequent reviews of CBIC's risk management framework, its investment policies and current market activity for each asset class. This ensures that all market risks are being assessed and measured accurately and appropriately in the current environment.

CBIC's objective is to invest in opportunities that add value and continue to provide strong total returns to the portfolio.

CBIC's long term goals include:

- Investing in assets that exceed long term and individual asset class benchmarks by utilising knowledge and capability of the Board and its employees;
- Adding value to Brisbane City Council's (Council) underutilised land holdings; and
- Acquiring or developing suitable assets that meet Council's and the private sector's accommodation requirements on a market based comparison.

The most recent accommodation solution was delivered through the newly constructed South Regional Business Centre at Fairfield Road, Yeerongpilly (see front page photo) which became operational on 25 June 2012. This 5 star green star and 5 star NABERS rated building provides vastly improved facilities for Council's staff and the southern residents of Brisbane for customer service needs. This investment grade facility was completed under budget and on time, adding real benefits to the investment quality and value of CBIC's real estate portfolio.

In addition, an industrial facility at Industrial Avenue, Wacol was acquired (see following page for site photo), which will be occupied and used by Council's fleet maintenance and warehouse storage operations. The site also allows for further development on a section of vacant land at the rear (approximately 8,000 square metres) for a further building up to 5,000 square metres.

*\*Source: Super Ratings and QSuper*



**Mark Brodie**  
Chairman

With strong private sector and Council covenants, CBIC achieves significant capital and income returns on these assets. The outcome of these developments and acquisitions is that significant capital value has been added to the fund, which ultimately accrues to Council. I make particular note of the continued strong growth and total return performance of the commercial property portfolio, which reflects another very good result at 22.61%.

As previously stated, over the next 18 months CBIC will look to grow and enhance its existing investments and capitalise on longer term growth opportunities available in the current market. This may include bringing in strategic partners to further develop and grow each asset class.

CBIC has continued to provide strong returns for the residents of Brisbane despite the challenging economic environment.

We intend to further develop and build on CBIC's growth through the forecast completion of the Green Square office development in May 2013, which already has an 80% leasing pre-commitment and will add a further significant investment grade asset to the portfolio.

On 19 June 2012 the Board declared an annual dividend of \$10.0 million, which was paid to the Council.

I would like to thank the Board and CEO for their contribution over the year and the ongoing support and efforts of the team at Council.



**Mark Brodie**  
Chairman

#### **16 Industrial Avenue, Wacol – Industrial Warehouse Facility with Vacant Land**



## 2 Operational Report

### 2.1 Overview

CBIC has performed well in its fourth full year of operation, despite continuing difficult economic conditions in domestic and global markets. CBIC's strategy of investing funds into high quality commercial property assets and cash investments was achieved during the 2012 financial year.

Major highlights include:

- completing the office development at Fairfield Rd, Yeerongpilly to accommodate Council's South Regional Business Centre;
- acquiring 16 Industrial Avenue, Wacol industrial building with vacant land;
- achieving 80% pre-commitment from new tenants for the 16,386 square metre office development at 15 Green Square Close, Fortitude Valley; and
- ensuring CBIC's investments are consistent with the current economic climate and long term business strategies developed by the Board.

*CBIC's net return on investment for the year was 10.04%*

CBIC's total net return on investment for the period was a strong 10.04%, recording \$18.43 million net profit.

This year's 10.04% return builds on the previous years returns of 12.48% in 2010/11 and 11.8% (excluding BAC share sale) in 2009/10, respectively.

CBIC's domestic equity portfolio investments performed poorly in 2011/12 showing a return of -13.13%. This is consistent with other domestic equity investment portfolio returns held by other funds. The domestic equity benchmark returns for CBIC are the S&P/ASX 200 Accumulation Index (-6.71%) and S&P/ASX300 Accumulation Index (-6.80%).

CBIC continued to invest in industrial property during 2011/12 (i.e. Industrial Avenue, Wacol), reducing its investment in term deposits and other cash facilities. The addition of this property provided support to the strong market value uplift achieved in the commercial property portfolio, with an annualised total return of 22.61% for the year. This compares favourably against its benchmark (Mercer/IPD Australian Pooled Property Fund Index at 9.1%) and other market funds, such as QSuper Balanced superannuation fund which achieved 6.40% in the same period.

Further details on CBIC's results and financial position at 30 June 2012 are outlined below.

### 2.2 Operating Result

Of the \$30.3 million in total income generated, CBIC recorded a net comprehensive income of \$18.43 million for the year ended 30 June 2012. The total comprehensive income of \$18.43 million takes into consideration the unrealised fair value loss of (\$8.4) million in domestic equities, thereby equating to a 10.04% net return on shareholder's equity.

This is a strong result given the current economic conditions and only being CBIC's fourth full year of operation.

Key drivers underlying the operating profit were:

- Fair Value increases in the commercial property portfolio, including the new South Regional Business Centre (SRBC) office development at Fairfield Rd, Yeerongpilly, improved value of land at 15 Green Square Close in Fortitude Valley and the industrial building and vacant land at Industrial Avenue, Wacol;
- Strong rental income from the commercial property portfolio;
- Strong returns on term deposits with the four major banks and their subsidiaries, which were above normal wholesale rates; and
- Continued effective cost control resulting in low overheads.



Approximately 25% of CBIC investments are in cash as at 30 June 2012, with a value of approximately \$45 million (\$52 million in 2011). The draw down on cash reserves for the two construction projects were balanced against revenue of approximately \$30.3 million from the disposal of CBIC's domestic equities held with Australian Unity in the 2011/12 period. The reduction in cash reflects the purchase of 16 Industrial Avenue, Wacol and costs associated with development expenses for the new building at Fairfield Rd, Yeerongpilly and partly constructed office building at Fortitude Valley.

## **Review of Results**

Details of CBIC's comprehensive income for the year ended 30 June 2012 and the prior financial year are:

<b>Comprehensive Income</b>	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Interest	2,677	4,191
Net rent	8,618	6,040
Equity distributions	1,162	2,060
Fair value gains on property assets*	17,423*	6,325*
Gain on sale of investments	329	-
Fair value gain on equity investments (unrealised)	(8,385)	5,190
Other Income	49	-
<b>Expenses</b>		
General and administration	514	189
Commercial buildings	1,997	1,279
Employment costs	349	345
Managed equity fund fees	338	669
Directors' fees	242	281
<b>Total expenses</b>	<b>3,440</b>	<b>2,763</b>
<b>Total Comprehensive Income</b>	<b>18,433</b>	<b>21,043</b>

Source: CBIC Audited Profit and Loss Statement for the year ended 30 June 2012

\* Fair value gain on investment property assets

Interest income was derived primarily from term deposits and the QTC Capital Guaranteed Cash Fund. The weighted average return on cash investments for the year was 5.89% (2011 = 5.98%) with approximately 25% of CBIC's assets being cash and cash equivalents at 30 June 2012. Cash balances were fully invested in term deposits at all times during the year, subject to the liquidity requirements outlined in the Investment Policy.

The key property investments over the past 12 months have been the purchase of the industrial building and vacant land at 16 Industrial Avenue, Wacol; completion of the SRBC facility at 665 Fairfield Rd, Yeerongpilly and the construction commencement of the 12 storey, 5 star greenstar and 5 star NABERS rated office development at 15 Green Square Close, Fortitude Valley.

The Yeerongpilly office building accommodates Brisbane City Council's staff for the southern region and provides Brisbane residents with a modern customer service centre.



At the start of the financial year a vacancy on Level 9 of 157 Ann St was created by the exit of Queensland Rail. This area was subsequently leased to Brisbane Marketing, a subsidiary of Brisbane City Council. In addition, Level 8 of the building was also being surrendered by Brisbane City Council as part of its accommodation strategy. The two contiguous floors provided Brisbane Marketing with the required area for its occupancy at a market based rental and incentive.

This is a good example of CBIC using its commercial capability to maximise returns for the residents of Brisbane through its commercial property portfolio, whilst providing a Council entity with a direct accommodation solution.

As a result, the 157 Ann St building remains fully leased, with CBIC securing strong ongoing rental returns of approximately 10.0% for the year based on the building's fair value of \$37 million at 30 June 2011. The valuation at year end provided a gain of \$1.0 million to \$38 million, which is consistent with market capital growth in Brisbane's CBD office market.

For the financial year ending 30 June 2012, the net fair value gain on property assets was \$17.42 million, with a majority of this increase accounted for by the Green Square land, achieving approximately \$7.5 million uplift in value. The remaining capital value increases were \$6.2 million for SRBC, \$2.6 million for 16 Industrial Avenue, Wacol and a \$1.0 million for 157 Ann Street.

These capital gains in property investments contributed strongly to the net return of \$18.43 million in the 2012 period.

CBIC's equity fund investments generated income returns of \$1.16 million during the year, together with an unrealised market value loss on the portfolio of (\$8.38) million as at 30 June 2012. The total return of (13.13%) for the year (previous year recorded a \$5.19 million gain on the portfolio) is consistent with other funds' performance for similar equities holdings, which is a reflection of the domestic and global economic conditions over the period.

CBIC's assets continue to be assessed and accounted for based on fair value methodology.

Operating expenses continued to be tightly controlled during the year, with CBIC maintaining use of Council's preferred supplier arrangements and, where appropriate, CBIC running its own procurement processes.

### 2.3 Dividend

A dividend of \$10.0 million was paid to Brisbane City Council in the 2012 financial year (\$6.0 million was paid in the 2011 financial year). Since the inception of CBIC in mid 2008, a total amount of \$19 million in dividends has been paid to Council, on an increasing annual basis.

### 2.4 Net Assets

CBIC's net assets increased from \$183.7 million at 30 June 2011 to \$193.9 million at 30 June 2012. This is a \$10.2 million increase or 5.55% growth in net assets over a 12 month period. As discussed earlier, this growth has mainly come from CBIC's continued investment in commercial property assets at Industrial Avenue, Wacol, the completion of the SRBC office building and the improvement in land at 15 Green Square Close, Fortitude Valley. This was also supported by the continued strong cash returns earned on deposits.

Since 30 June 2009 the fund's net assets have grown by \$56.4 million or approximately 41%, excluding the additional \$19 million in dividends paid to Council. CBIC's net asset position, recorded at fair value, at 30 June 2012 and prior years was as follows:

Balance Sheet	2012 \$ million	2011 \$ million	2010 \$ million	2009 \$ million
Total assets	197.5	184.3	169.7	137.6
Total liabilities	(3.6)	(0.7)	(1.1)	(0.1)
Net assets	193.9	183.7	168.6	137.5

Source: CBIC Audited Balance Sheet 30 June 2012





## 3 Investment Summary

### 3.1 Overview

CBIC's total return for the year was a strong 10.04%. This is well above CBIC's long term investment return benchmark of CPI plus 4.5% to 5.5%. According to the Australian Bureau of Statistics, the Australian headline CPI rate for the 2012 financial year was 1.2%, and therefore the higher end of the expected performance range for CBIC would equate to 6.7%.

The approximate investment mix at 30 June 2012 was 7% in equities, 67% in commercial property, 24% in cash and 2% in other capital items. Cash levels remain high as a result of the sale of CBIC's investment in Australian Unity's domestic equities fund, realising approximately \$30.3 million during the period.

*The total annualised return on property was a strong 22.61%*

This cash will be utilised to fund the Green Square development project. It is expected that CBIC will be fully invested in property for the coming financial year, and therefore cash levels will reduce accordingly, over the next 12 months.

Weighted interest returns on cash investments averaged 5.89% which compares favourably with its benchmark the UBSA Bank Bill Index average of 4.69% for 2012.

The rental yield on the property portfolio (after amortisation of incentives) maintained a strong annualised rate of approximately 7.4% for the year (10.7% in 2011). This value is less than the previous year due to the two most significant projects, SRBC and Green Square, being under construction and not providing a rental return during the financial year.

The total annualised return on property, including capital growth, is 22.61% for the period (18.6% for 2011). This strong annualised total return was achieved after the acquisition of the Wacol property in November 2011, coupled with the strong fair value increases achieved for the SRBC upon practical completion in June 2012. This was also supported by the achievement of the development approval on the land at 15 Green Square Close, Fortitude Valley earlier in the period.

In addition, the strength of the underlying tenant covenants with Council and other private entities has improved the weighted average lease expiry profile (WALE) of each property. This has strengthened the fair value gains for each of these properties coupled with a tightening in average market yields for commercial property in South East Queensland.

The CBIC annualised total property return of 22.61% far exceeded the Mercer / IPD Australian Pooled Property Fund Index benchmark of 9.1% for the year to 30 June 2012.

CBIC's equity fund investments yielded \$1.16 million in distributions during the year which represents a 2.63% return on investment. Overall equity performance showed a negative total return (inclusive of distributions) at approximately (13.13%). This return was below the CBIC benchmark returns for equities, being the S&P/ASX200 Accumulation Index and S&P/ASX300 Accumulation Index, which achieved annual returns of (-6.71%) and (-6.80%), for CBIC's holding period, respectively.

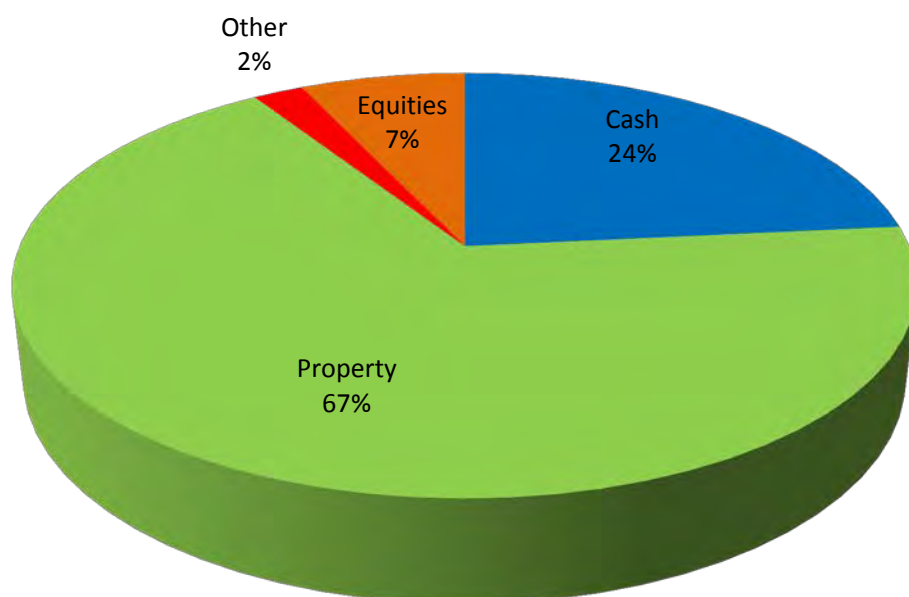
Despite this negative return, the sale of the Australian Unity domestic equities investment during the year yielded \$30.3 million, which was above the original cost of \$30 million for this investment.

It is expected that as global economic conditions improve in the next 12 months, the performance of the remaining domestic equities investment will improve, accordingly.



### 3.2 Asset Allocation

CBIC's Asset Allocation as at 30 June 2012 was:



As identified earlier, the majority of CBIC's assets are allocated in commercial property at 67%, followed then by cash and equities, which are 24% and 7%, respectively. The remaining 2% of CBIC's Assets is allocated in other capital investment items.

CBIC still continues to hold significant cash funds. A majority of these funds have been earmarked for committed property projects over the next financial year.

Total assets by class are outlined below at their fair values.

Asset Class	Fair Value 2012 \$ million	Fair Value 2011 \$ million	Increase/(Decrease) \$ million
Australian Equities*	13.8	52.5	(38.7)
Property	131.6	74.3	57.3
Cash	45.8	51.7	(5.9)
Receivables and Other	6.3	5.8	0.5
<b>Total Assets</b>	<b>197.5</b>	<b>184.4</b>	<b>13.1</b>
Total Liabilities	(3.6)	(0.7)	(2.9)
<b>Total Net Assets</b>	<b>193.9</b>	<b>183.7</b>	<b>10.3</b>

\* Net of management fees.



### 3.3 Cash

CBIC has continued to invest in term deposits with major Australian banks and where appropriate, the major's subsidiaries.

At 30 June 2012, the amount held in short term deposits totalled approximately \$46 million. In accordance with the liquidity policy a balance of approximately \$5.0 million was retained with the QTC Cash Fund (24 Hour Call) throughout the financial year, on average.

Average Cash Fund returns for the year were 5.89% resulting in an out performance of 120 basis points or almost 26% over the annual average rate of its benchmark UBS Bank Bill Index at 4.69%.

*Term deposit returns of 5.89% significantly outperformed the UBS Bank Bill Index of 4.69%.*

Continued focus on cash flow management has been very important and is closely reviewed by the Board and respective committees' accordingly. CBIC continues to maintain its strong relationships with the 'big four' banks, their subsidiaries and QTC, which has resulted in superior cash returns over the year.

### 3.4 Property

#### 3.4.1 Cullen Avenue, Eagle Farm

The Cullen Avenue, Eagle Farm property has been progressively fitted out to accommodate Council's file storage and inner city logistics / warehouse operations as existing leases have expired.

These fit out works will further enhance the building's functionality and market value.

The building area is 11,855 square metres situated on 20,080 square metres of land area. Council formally took up its initial occupancy of the 5,807 square metres in mid June 2012, which was the commencement of the initial 10 year lease term.



The building accommodates a number of other key tenants, including Qld Government, Hungry Jacks, Freedom Fuels and Plastral enterprises. The WALE of the building is approximately 7 years based upon Council's occupancy, which provides a solid income stream and return to the whole investment portfolio.

#### 3.4.2 157 Ann Street, Brisbane

Over the 2012 financial year 157 Ann Street, Brisbane remained CBIC's cornerstone commercial property investment. A fair value increase of \$1.0 million was achieved during the year, increasing its fair value to \$38 million, with a strong rental yield at approximately 10% for the period.

The building remains fully leased despite one floor becoming vacant on 30 June 2011. Brisbane Marketing, a subsidiary of Council, took up occupancy of Levels 8 and 9 in the first half of the financial year. Council surrendered Level 8, in agreement with CBIC, as part of Council's accommodation strategy, which in turn provided the required area for Brisbane Marketing's occupancy.

Strong tenants and a weighted average lease expiry of approximately 7 years at 30 June 2012 continue to underpin the market value of the building.

The 157 Ann St property was purchased initially for \$21.5 million (plus statutory charges) in August 2009. Since its purchase, capital upgrades have been undertaken.

A lease incentive of \$5.3 million was contributed to Council's fit out costs, which will be amortised over the lease term.

The current fair value of the asset is \$38 million at 30 June 2012. This asset continues to perform strongly.



### 3.4.3 Rivergate Shipyard, Murarrie



The Rivergate facility continues to provide a strong income support to the total property returns for CBIC's assets.

This asset also supports CBIC's strategy to maintain good commercial property investments, secured by long term leases, which adds significantly to the investment value and WALE across the portfolio.

The majority of the property is leased to Council until early 2041, which provides a stable, long term cash flow benefit to CBIC.

### 3.4.4 South Regional Business Centre, Yeerongpilly

CBIC completed construction of a new 4,198 square metre office building at Fairfield Rd, Yeerongpilly in June 2012, after commencing construction in July 2011. The building was purposely designed and constructed to accommodate Council's South Regional Business Centre (SRBC).

The SRBC will offer an improved standard of office accommodation for Council staff, after relocating from the basement level of the Sunnybank Hills shoppingtown. This new office building also provides a better customer interface and service centre for the residents of Southern Brisbane.

CBIC had selected ADCO Constructions to construct the new SRBC office building at Fairfield Rd, Yeerongpilly, with the project team achieving actual costs below budget and meeting the scheduled construction timeframe.



### 3.4.5 15 Green Square Close, Fortitude Valley



The property development is a 16,386 square office building located at 15 Green Square Close, Fortitude Valley, which has progressed significantly over the last year to 30 June 2012.

This 12 storey building has seen two significant tenant pre-commitments in the period to 30 June 2012, achieving an 80% tenant pre-commitment level for the whole building. Practical completion is expected by May 2013.

ADCO Constructions won the tender to construct this building, which will be delivered to a Property Council of Australia A grade standard, with a five star green star and five star NABERS, as designed rating, to be achieved.

### 3.4.6 Industrial Avenue, Wacol

In November 2011 CBIC acquired a commercial property located at Industrial Avenue, Wacol. The site was acquired with vacant possession and includes a total land area of 21,743 square metres with a warehouse of 5,034 square metres located on the front section. Brisbane City Council entered into a lease for 10 years for the warehouse and approximately 5,000 square metres of hardstand from mid June 2012.



This facility accommodates Council's fleet maintenance and operations units, with the remaining vacant land parcel allowing further development of another warehouse and hardstand area up to 8,000 square metres, combined.

CBIC is currently considering leasing options for the vacant land section at the rear.

This acquisition provides a further example of how CBIC is able to add value for the residents of Brisbane, by acquiring a quality asset and meeting Council's accommodations needs at the same time.

## 3.5 Equities

### 3.5.1 Equity Fund Managers

\$30 million was invested in Australian Unity Investments, Platypus Australian Equities Trust (Platypus) in August 2009 and \$20 million in the All Star IAM Australian Share Fund (All Star) in December 2009. The performance of these managed equity funds for 2011/12 is as follows:

Performance	Platypus AUI* 2011/12	Platypus AUI* 2010/11	All Star IAM* 2011/12	All Star IAM* 2010/11
Benchmark return	(6.80%) <sup>#</sup>	11.90%	(6.71%)	11.73%
Actual return	(6.06%)	12.36%	(25.50%)	18.28%
Outperformance	0.74%	0.46%	(18.79%)	6.55%
Benchmark	S&P/ASX 300 Accumulation Index		S&P/ASX 200 Accumulation Index	

\*Source: Platypus AUI Funds Management and All Star IAM annual returns inclusive of distributions

<sup>#</sup> Benchmark return is calculated on CBIC's holding term.

Whilst CBIC's equities portfolio has underperformed this financial year, historically on average it has outperformed when compared to its respective benchmark indices. However, like any investment, the market values of the units held in these investments are subject to volatility and performance of the broader economy. The continuance of economic volatility in the domestic equities market has seen the CBIC equities investments achieve a negative return of (13.13%) in the year to 30 June 2012.

At 30 June 2012, the managed equity funds were collectively valued at \$44.2 million (\$52.5 million in 2011), net of investment management fees, with income distributions for the year totalling \$1.16 million (\$2.06 million in 2011).

As with all long term investments, and in accordance with CBIC's investment policy, equity fund performance should be assessed over an average 7 year term, where returns reflect long term investment expectations. It is anticipated that as the economy improves in the short to medium term the remaining equities investment will perform well and recover to values recorded in the 2011 financial year period.

## 4 Outlook

The 2011/12 year has been another exciting year of new investments and planned property developments for CBIC.

The operating result and total return achieved comparatively above market benchmarks and well above superannuation fund returns for the 2011/12 financial year. It is anticipated that the 2013 financial year will provide another strong year of net return for CBIC, with the potential to significantly outperform the targeted returns of CPI plus 4.5% to 5.5%.

A strong pipeline of potential projects is being considered, with a strong focus on meeting existing development delivery of the office building at 15 Green Square Close, Fortitude Valley, which is on target to meet its scheduled practical completion date of May 2013.

These opportunities are expected to see CBIC fully invested in long term assets within the next 12 months. This may also mean that CBIC may seek joint venture partners or additional equity through other capital sources to enable it to continue to expand its investment base and continue to capitalise on its competitive advantage, which is to enhance underutilised Council assets and other market based opportunities available as a result of continuing economic trends.

CBIC's focus over the next 12 months will be to review potential projects and manage the projects in progress, including the completion of the 15 Green Square Close, Fortitude Valley project, whilst seeking final pre-commitments for the remaining 20% area.

## 5 Investment Philosophy

CBIC's objective as an independent investment corporation is to deliver quality investment returns to the Brisbane City Council for the benefit of the residents of Brisbane. In meeting these objectives, CBIC utilises an investment philosophy built on the following:



CBIC's Investment Policy ensures that all investment decisions are made in line with this philosophy.

### 5.1 Performance Benchmarks

The long term (seven years) investment return objective for CBIC funds is Consumer Price Index (CPI) plus 4.5% to 5.5%. The Investment Policy has set the following performance benchmarks.

Category/Sector	Policy Benchmark Representative Index
Australian Property	Mercer/IPD Australian Pooled Property Fund Index (Diversified)
Cash	UBS Australian Bank Bill Index over a rolling one year period
Australian Equities	Standard and Poor's ASX200 and ASX300 - Accumulation Indices
Australian Bonds	UBS Composite Bond Index

Source – IPD, Standard & Poors and UBS Australia

## **5.2 Asset Allocation**

CBIC is not a traditional fund manager and therefore is not required to maintain a minimum sector weighting. As CBIC has access to value adding opportunities through Brisbane City Council's property asset portfolio, CBIC's investment mix will be weighted towards commercial property developments and investments.

The CBIC Investment Review Committee, a sub-committee of the Board, has developed risk profiles for each asset class to ensure the strategic asset allocation is within risk parameters and investment objectives are met at all times, as required.

## **5.3 Investment Parameters**

The CBIC Investment Policy also states a series of investment parameters which dictates suitable criteria for an "authorised investment" within each asset class and defines single party exposure limits.

For example, the Investment Policy dictates that all cash investments must be made with financial institutions with a minimum A+ and AA- rating, with no more than 60% of investments to be made with a single party.

Investments in bonds must be with financial institutions or governments with an AA- rating or better, with no more than 20% of investments to be made with a single party (other than investments in cash).

Equity investments will be made indirectly through an external fund manager. CBIC can make both direct and indirect property investments.

CBIC continues to maintain its alignment with the investment parameters.










## 6 CBIC Board




The City of Brisbane Investment Corporation Board is charged with the responsibility of making prudent investment decisions for the Corporation.

Their diverse commercial experience combines to gain an informed viewpoint to pursue meaningful investment opportunities for CBIC.

### 6.1 Board and Committee Members

<p><b>Mark BRODIE</b> Chairman</p> 	<p>Mark is also the Chairman of Brodie Group and founder of Brodies Mealmakers, a company that owns and operates quick service restaurants.</p> <p>Mark is Chairman of the National Retail Association and holds directorships and fellowships with several other companies and organisations.</p> <p>He was also recently appointed the role as Chairman of the Gladstone Ports Corporation in June 2012.</p>
<p><b>Neil CASTLES</b> Director</p> 	<p>In April 2012, Neil was promoted to Director-General of the Department of Local Government. Prior to this appointment, Neil was the Deputy Director General at Queensland Health.</p> <p>His career spans more than 30 years in the areas of government, public sector accounting and auditing, capital markets and financial risk management.</p> <p>Neil is also a board member of IIB (responsible for the retail Services for the Torres Strait). Prior to his appointment at Queensland Health in January 2011, Neil was a General Manager at Queensland Treasury Corporation and a Director and Company Secretary of a number of the Queensland Government's specific purpose companies.</p>
<p><b>Jane EDWARDS AM</b> Director</p> 	<p>Jane is Executive Chairman of BBS, one of Australia's leading communications and public relations consultancies. In 2009, she was awarded the prestigious Chevalier de l'Ordre National du Merit by the President of France in recognition of her service as Honorary French Consul.</p> <p>Jane is the founding Chairman and judge of the Premier's Literary Awards since its inception in 1998. She is Deputy Chairman of Opera Queensland and is a Director of the National Breast Cancer Foundation and an adjunct Professor at the UQ School of Communications and Journalism.</p>

<p><b>Michael KNOX</b> Director</p> 	<p>Michael is Director of Strategy and Chief Economist for RBS Morgans Limited. He has served on many Queensland Government advisory committees.</p> <p>He has been Chairman of the Advisory Committee of School of Economics and Finance at the Queensland University of Technology and Governor of the American Chamber of Commerce from 1997 to 2007. Michael is the current President of the Economic Society of Australia (Qld) Inc.</p>
<p><b>Colin JENSEN</b> Director</p> 	<p>Colin is the Chief Executive Officer of the Brisbane City Council (BCC). He took up the position in August 2010. Prior to taking on his role in Brisbane, he was the Coordinator General and the Director General of the Department of Infrastructure and Planning with the Queensland State Government.</p> <p>Colin has extensive state and local government experience and has undertaken other senior government roles in his career.</p> <p>Colin is also a Director of the Brisbane Institute, Australia Trade Coast Pty Ltd and the Translink Transit Authority.</p>
<p><b>Maria ROACH</b> Director</p> 	<p>Maria has more than 18 years experience as a company secretary of publicly-listed companies in Australia. She is currently the Company Secretary of Billabong International Limited.</p> <p>Maria has a Bachelor of Business (Accountancy), is a Fellow of Chartered Secretaries Association and a Certified Practising Accountant (CPA). She is a former member of the Australian Government Takeovers Panel.</p>
<p><b>Craig SPENCER</b> Director</p> 	<p>Craig is Managing Director and owner of the Carter &amp; Spencer Group - one of Australia's largest Fresh Produce Companies. The Group exports, imports, and distributes globally, fresh fruit and vegetables from its operations throughout Australia and New Zealand.</p> <p>Craig has served on many industry Boards including Chairman of Australian United Fresh (QLD), Queensland Horticultural Export Council, Queensland Chamber of Fruit &amp; Vegetable Industries Co-operative Ltd (Brismark), Queensland Food &amp; Fibre Agribusiness Council and Produce Marketing Association Australia &amp; New Zealand Country Council.</p> <p>Craig currently serves on several Boards including, Churchie Foundation and The Australian Ballet. He is also a Fellow of the Australian Institute of Company Directors.</p>

<p><b>David ASKERN</b> <b>Company Secretary</b></p> 	<p>David is the Chief Legal Officer of Brisbane City Council and currently manages Council's internal legal service provider, Brisbane City Legal Practice.</p> <p>David has more than 20 years of experience in all aspects of the law with particular emphasis on drafting and interpretation of legislation affecting local government, commercial contracting and industrial relations.</p>
<p><b>Greg EVANS</b> <b>Alternate Director for Colin Jensen</b></p> 	<p>Greg is currently the Chief Operating Officer for the Brisbane City Council, having joined in September 2009.</p> <p>Greg is a CPA with over 25 years finance and treasury experience gained in varied industries including energy, airlines, mining, consumer products and banking. Previous roles include being CFO and GM Finance at Ergon Energy and Manager Corporate Finance at Qantas Airways Limited.</p>
<p><b>Mark MAZURKIEWICZ</b> <b>Chief Executive Officer</b></p> 	<p>Mark joined CBIC in May 2011 as Chief Executive Officer. His career spans approximately 20 years in prudential financial regulation, commercial property development and consultancy, and management. His most recent role was Manager City Property with Brisbane City Council. Prior he was a Director with a merchant bank and senior manager with Jones Lang LaSalle, Energex and QR.</p> <p>Mark has graduate, post graduate and professional qualifications in Economics, Property Valuation, Financial Securities Investment and Project Management. He is currently a fellow member of FINSIA.</p>

## 7 Corporate Governance

### 7.1 Board Sub-Committees

The Board has established sub-committees to assist the effective functioning of the Corporation in line with effective corporate governance practices:

- Investment Review Committee - role is to review investment opportunities and where necessary make recommendations to the Board,
- Finance & Audit Committee - role includes monitoring the effectiveness of internal controls, managing internal and external audit, reviewing the risk management framework and reviewing the annual financial statements, and
- Business Management & Protocol Committee - role includes developing corporate, strategic and communication plans.

The number of meetings of the Corporation's committees held during the year ended 30 June 2012, and the number of meetings attended by each director were:

Attendees	Investment		Finance & Audit		Business & Protocol	
	A	B	A	B	A	B
M Brodie	9	9	*	*	*	*
N Castles	8	9	4	4	*	*
J Edwards	*	*	*	*	5	5
M Knox	9	9	*	*	*	*
M Roach	*	*	4	4	5	5
C Spencer	8	9	*	*	*	*
D. Askern	*	*	4	4	4	5
G Evans	*	*	*	*	4	5

**A** = Number of meetings attended

**B** = Number of meetings held during the time the director held office or was a member of the committee during the year.

\* = Not a member of the relevant committee

## 7.2 Remuneration

Directors are paid by way of fees for their services. The Chairman and Directors' fees are \$65,000 and \$35,000 per annum respectively. Statutory superannuation is paid for directors who receive their fee personally rather than by a company. Brisbane City Council directors do not receive a fee for their services and the Queensland Government is paid the fee for Mr Neil Castle's Board service.

## 7.3 Managing Conflicts of Interest

Developed as an extension to CBIC's Corporate Governance Policy is the Conflicts of Interest Policy for CBIC Board members. CBIC strives to ensure that all decisions are made on sound, independent advice that is free from personal or commercial pressures.

The Conflicts of Interest Policy sets out the approach of CBIC to managing actual or potential conflicts of interest. The Policy outlines required steps to both disclose and manage potential conflicts of interest.

The Policy requires all Board members and staff to make timely disclosure in writing to the company secretary of all actual or potential conflicts of interest.

Disclosure of conflicts of interest is a standing item on each Board meeting agenda. Directors must disclose any potential or actual conflict of interest concerning any item of business before the Board.

The Policy outlines ways that the conflict can be managed from disclosure, to abstaining from votes, to a decision by CBIC not to transact business with the person who has the conflict or the person resigning their position from the company.



**ACN 066 022 455**

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## Directors' Report

City of Brisbane Investment Corporation Pty Ltd is an Australian company with its registered office located at Level 23, 266 George St, Brisbane, Queensland, Australia.

The Directors present their report together with the Financial Report of the company for the financial year ended 30 June 2012.

### Directors

The names of Directors in office at any time during or since the end of financial year are:

- Mark V **BRODIE** (Chairman)
- Neil E **CASTLES**
- Jane A **EDWARDS**
- Michael J S **KNOX**
- Maria A **ROACH**
- Craig G **SPENCER**
- Greg C **EVANS** (Alternate of Colin D Jensen)
- Colin D **JENSEN**

### Principal Activities

The principal activity of the company during the financial year included property development and acquisition activities, investment in managed funds and short term deposits.

### Operating Activities

The result of the company for the financial year ended 30 June 2012 was a total comprehensive income of \$18,433,837.

### Review of Operations

The main sources of revenue were interest revenue from cash held on deposit, distributions from managed equity funds and rent generated from the company's investment properties.

During the year, the company acquired an investment property and completed the construction of South Regional Business Centre.

The construction of another commercial property at 15 Green Square Close, Fortitude Valley commenced during the year and is scheduled to be completed in 2013.

The company also declared and paid dividends to Brisbane City Council amounting to \$10 million during the year (2011: \$6 million).

### Events after Balance Date

At the signing, there were no events subsequent to balance date which would have material effect on the company's financials.



## Directors' Report

### Directors' Benefits

During the financial year, Directors of the company have received or become entitled to receive directors' fees totalling \$242,530.

### Directors' Meetings

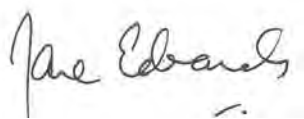
The number of directors' meetings and number of meetings attended by each of the directors of the company during the financial year are:

Names	A	B
Mark V Brodie (Chair)	11	11
Neil E Castles	9	11
Craig G Spencer	8	11
Michael J S Knox	10	11
Jane A Edwards	10	11
Maria A Roach	9	11
Colin D Jensen	10	11
Greg C Evans (Alternate of Colin D Jensen)	1	1

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

Signed in accordance with a resolution of the Directors.



Jane Edwards  
Directors



Maria Roach  
Director

Brisbane, 21 August 2012



## Auditor's Independence Declaration


### To the Directors of the City of Brisbane Investment Corporation Pty Ltd

This audit independence declaration has been provided pursuant to s. 307C of the *Corporations Act 2001*.

#### *Independence Declaration*

As the lead auditor for the audit of the City of Brisbane Investment Corporation Pty Ltd for the year ended 30 June 2012, 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.



D A STOLZ FCPA  
*as delegate of the Auditor-General of Queensland*

Queensland Audit Office  
Brisbane

21 August 2012

## Statement of Comprehensive Income for the year ending 30 June 2012

	Note	2012 \$	2011 \$
<b>Income</b>			
<b>Revenue</b>			
Rental income	2	8,618,059	6,039,709
Interest		2,677,139	4,191,344
Distribution income		1,161,925	2,059,784
Other income		49,088	-
		<u>12,506,211</u>	<u>12,290,837</u>
<b>Other income</b>			
Gain on sale of investment	5	329,550	-
Fair value gain on investment property	6	17,423,213	6,325,443
		<u>17,752,763</u>	<u>6,325,443</u>
<b>Total income</b>		<u>30,258,974</u>	<u>18,616,280</u>
<b>Expenses</b>			
Employee costs	3(a)	349,065	345,378
Directors' fees		242,530	281,359
Building expenditure		1,996,627	1,278,516
Investment management fees		338,161	669,113
Other expenses	3(b)	513,597	189,186
		<u>3,439,980</u>	<u>2,763,552</u>
<b>Net profit for the period</b>		<u>26,818,994</u>	<u>15,852,728</u>
<b>Other comprehensive income (expense)</b>			
Net unrealised fair value gain (loss) on available for sale financial assets arising during the year	11	<u>(8,385,157)</u>	<u>5,190,198</u>
Other comprehensive income (expense)		<u>(8,385,157)</u>	<u>5,190,198</u>
<b>Total comprehensive income attributable to members of the company</b>		<u>18,433,837</u>	<u>21,042,926</u>

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Statement of Financial Position as at 30 June 2012

	Note	2012 \$	2011 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	12	45,844,098	51,687,263
Receivables	4	2,110,143	1,493,420
<b>Total Current Assets</b>		<u>47,954,241</u>	<u>53,180,683</u>
<b>NON CURRENT ASSETS</b>			
Available for sale financial assets	5	13,781,345	52,497,253
Investment property	6	131,644,946	74,340,544
Property, plant and equipment	7	756	1,511
Other assets	8	4,160,238	4,328,333
<b>Total Non Current Assets</b>		<u>149,587,285</u>	<u>131,167,641</u>
<b>Total Assets</b>		<u><u>197,541,526</u></u>	<u><u>184,348,324</u></u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	9	3,551,882	689,551
<b>Total Current Liabilities</b>		<u>3,551,882</u>	<u>689,551</u>
<b>Total Liabilities</b>		<u>3,551,882</u>	<u>689,551</u>
<b>Net Assets</b>		<u><u>193,989,644</u></u>	<u><u>183,658,773</u></u>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	10	135,138,512	135,138,512
Other capital contribution	14	1,897,034	-
Fair value reserve	11	(5,231,883)	3,153,274
Retained profits		62,185,981	45,366,987
<b>Total Shareholder's Equity</b>		<u><u>193,989,644</u></u>	<u><u>183,658,773</u></u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity for the year ended 30 June 2012

### 2012

	Total	Share capital	Other capital contribution	Fair value reserves	Retained Profits
		Note 10	Note 14	Note 11	
	\$	\$		\$	\$
Balance at beginning of year	183,658,773	135,138,512		3,153,274	45,366,987
Net profit	26,818,994	-	-	-	26,818,994
Other comprehensive income (expense)	(8,385,157)	-	-	(8,385,157)	-
Contribution by owner - Land transfer	1,897,034	-	1,897,034	-	-
Distribution to shareholder - Brisbane City Council	(10,000,000)	-	-	-	(10,000,000)
Balance at end of the year	193,989,644	135,138,512	1,897,034	(5,231,883)	62,185,981

### 2011

	Total	Share capital	Other capital contribution	Fair value reserves	Retained Profits
		Note 10	Note 14	Note 11	
	\$	\$		\$	\$
Balance at beginning of year	168,615,847	135,138,512	-	(2,036,924)	35,514,259
Net profit	15,852,728	-	-	-	15,852,728
Other comprehensive income (expense)	5,190,198	-	-	5,190,198	-
Distribution to shareholder - Brisbane City Council	(6,000,000)	-	-	-	(6,000,000)
Balance at end of the year	183,658,773	135,138,512	-	3,153,274	45,366,987

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Statement of Cash Flows for year ended 30 June 2012

	Note	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from tenants		10,438,298	7,098,349
Payments to suppliers and employees		(3,286,356)	(3,122,487)
Distributions received		2,038,906	1,418,437
Interest received		2,677,139	4,191,344
Net GST received from the Australian Taxation Office		2,562,340	1,227,774
Sale proceeds from available for sale financial assets		30,329,548	-
Additions to investment property		(40,203,040)	(34,466,161)
Payment for lease incentive		(400,000)	-
<b>Net Cash Flows Provided from (used in) Operating Activities</b>	12	<u>4,156,835</u>	<u>(23,652,744)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		<u>(10,000,000)</u>	<u>(6,000,000)</u>
<b>Net Cash Flows provided from (used in) Financing Activities</b>		<u>(10,000,000)</u>	<u>(6,000,000)</u>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		(5,843,165)	(29,652,744)
Cash at the beginning of the year		<u>51,687,263</u>	<u>81,340,007</u>
<b>CASH AT THE END OF THE YEAR</b>	12	<u><u>45,844,098</u></u>	<u><u>51,687,263</u></u>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2012

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by the entity in the preparation of the financial report.

#### (a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial statements were authorised for issue by the directors on 21 August 2012.

#### (b) Basis of Preparation

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. Investment property and available for sale financial assets are measured at fair value.

While its owner is a not for profit entity, the company is a profit entity.

#### (c) New Standards and Interpretations

##### (i) Financial Instruments (AASB 9)

AASB 9 will be effective for the company's reporting period commencing 1 July 2013 and must be applied retrospectively. The company does not plan to early adopt the requirements of the revised AASB 9.

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. The revised standard changes the classification, measurement and disclosure of financial assets. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories, fair value and amortised cost. This change will require the company to measure all financial assets, for example, investments in unquoted equity instruments, at fair value or amortised cost rather than at cost. This change is not considered to be significant.

##### (ii) Fair Value Measurement (AASB 13)

AASB 13 will be effective for the company's reporting period commencing 1 July 2013. The company does not plan to early adopt the requirements of AASB 13.

AASB 13 sets out a new definition for fair value as well as the new principles to be applied when determining the fair value of assets and liabilities. The new requirements will apply to all assets and liabilities (except leases) that are measured at fair value. While a review of these changes is yet to be completed, no significant changes are anticipated based on the fair value methodologies currently used.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2012

### (iii) Employee Benefits (AASB 119)

AASB 119 will be effective for the company's reporting period commencing 1 July 2013 and must be applied retrospectively. The company does not plan to early adopt the requirements of the revised AASB 119.

The revised standard includes changes to the criteria for accounting for employee benefits as short term employee benefits. Annual leave which is currently classified as a short term employee benefit is to be reclassified as a long term benefit according to the expected timeframe for settlement. The impact for the company is that the annual leave liability will change from being classified as a current liability to a combination of current and non-current. Any amounts not expected to be settled within twelve months will be discounted to the present value.

The concept of termination benefits and the recognition criteria have been revised. If termination benefits meet the timeframe criterion for short-term employee benefits, they will be measured according to the AASB 119 requirements for short-term employee benefits. Otherwise, termination benefits will need to be measured according to the AASB 119 requirements for other long-term employee benefits. Under the revised standard, the recognition and measurement of employer obligations for other long-term employee benefits will need to be accounted for according to most of the requirements for defined benefit plans.

While a review of the above changes is yet to be completed, no significant changes are anticipated.

### (iv) Presentation of Financial Statements (AASB 101)

AASB 101 will be effective for the company's reporting periods commencing 1 July 2012. The company does not plan to early adopt the requirements of the revised AASB 101.

The revised standard requires items to be presented in other comprehensive income under two headings: items that will be reclassified subsequently to profit and loss; and items that will not be reclassified subsequently to profit and loss when specific conditions are met. While the current presentation of items in other comprehensive income will change, it will not impact their measurement or recognition of such items.

### (d) Revenue

Interest revenue is brought to account when earned and distribution revenue is brought to account when declared.

Rental revenue from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

### (e) Expenditure

Direct labour and materials expenditure incurred in the purchase or construction of assets is capital expenditure. Expenditure necessarily incurred in either maintaining the operational capacity of assets or ensuring that their original life estimates are achieved, is considered maintenance and is treated as an expense as incurred. All other operational expenditure to maintain the effective operation of the business is treated as expenditure in the Statement of Comprehensive Income.

**(f) Investment Property**

Investment property is property held to earn rental income or for capital appreciation or for both, not for sale in the ordinary course of business, use in supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Fair value is based on market values determined by independent property valuers and reflects the price at which the property could be exchanged between knowledgeable willing parties in an arm's length transaction.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

**(g) Cash**

Cash includes cash on hand and in banks and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Cash holdings are continually monitored so as to maximise current market rates in line with the investment policy of the company. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate and credit risk and investing excess liquidity.

**(h) Available for Sale Financial Assets**

Available for sale investments are carried at fair value (net market value). Changes in net market value are recognised in Other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments are subject to impairment testing and are assessed for indicators of impairment on an annual basis.

All investment activities are considered in line with the company's investment policy and all proposals undertaken need to meet this policy before approval is given by the Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate and credit risk and use of derivative financial instruments.



## Notes to and forming part of the Financial Statements for the year ended 30 June 2012

### (i) Payables

Accruals are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company, and for dividends declared but not paid at year-end.

### (j) Employee Entitlements

Employee benefits relate to amounts expected to be paid to employees for annual leave, leave in lieu of statutory holidays worked and overtime, long service leave, workers' compensation and superannuation.

Annual leave is recognised in current liabilities and represents the amount that the company has a present obligation to pay resulting from employees' services provided up to balance date. The accrual has been calculated at nominal amounts based on remuneration rates that will be paid when the liability is settled and includes related on-costs.

### (k) Taxation

#### (i) Income Tax

Income of local governing bodies and public authorities and their subsidiaries is exempt from income tax (including capital gains tax) under the provisions of the Income Tax Assessment Act 1997.

#### (ii) Goods and Services Tax

Revenues, expenses and non-current physical assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

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

### (l) Share Capital

#### Ordinary Shares

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

	2012	2011
	\$	\$
<b>2 REVENUE AND OTHER INCOME</b>		
<b>Revenue</b>		
Rental income		
Gross rent	9,186,154	6,569,709
Less - amortisation of lease incentive	(568,095)	(530,000)
	8,618,059	6,039,709
<b>3 EXPENSES</b>		
<b>(a) Employee costs</b>		
Wages and salaries	301,873	304,724
Annual leave benefits	2,725	0
Superannuation contributions	26,706	28,036
Fringe benefits	-	12,618
Contract staff	17,761	-
	349,065	345,378
<b>(b) Other expenses</b>		
Accounting, internal audit and risk management fees	41,388	39,310
Payroll tax	27,971	29,770
Project expenses	75,000	26,000
Legal fees	149,649	19,275
Advertising and promotion	100,698	-
IT and computer expenses	22,127	16,060
Insurance	35,012	15,634
Audit fees - Queensland Audit Office	12,500	12,000
Stationery and supplies	11,024	9,568
Repairs and maintenance	584	4,272
Telephone and communication	6,478	4,244
Depreciation	755	755
Other	30,411	12,298
	513,597	189,186
<b>4 TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Rent receivable	386,648	71,361
Distribution receivable	191,425	1,068,406
GST receivable	1,193,007	-
Deposits	-	183,333
Accrued income	311,992	169,820
Other receivables	27,071	500
	2,110,143	1,493,420
<b>5 AVAILABLE FOR SALE FINANCIAL ASSETS</b>		
<b>Non - Current</b>		
<i>Investment in managed funds - at market value</i>		
Australian Unity Investments Platypus Australian Equities Trust	-	32,351,292
All Star IAM Australian Share Fund Institutional	13,781,345	20,145,961
	13,781,345	52,497,253

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

**2012**                      **2011**  
\$                                      \$

**5 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)**

During the year, the company's investments in Australian Unity Investments Platypus Australian Equities Trust with original cost of \$30 million were disposed resulting in a gain of \$329,550.

The total balance of investments in managed funds reflect movement in unrealised loss of \$8,385,157 (2011: gain of \$5,190,198) resulting from the revaluation at balance date and disposal of investment. This is included in Other Comprehensive Income.

**6 INVESTMENT PROPERTY**

Opening balance at 1 July	74,340,544	35,073,464
Additions:		
- Direct acquisition of investment property and completed project	21,726,695	31,232,515
- Land transferred from owner (Note 14(b))	1,897,034	-
- Property being constructed for future use as investment property	16,187,013	1,335,544
- Subsequent expenditure on investment property	70,447	373,578
Net gain from fair value adjustments to investment property	17,423,213	6,325,443
Closing balance at 30 June	131,644,946	74,340,544

Investment properties are carried at fair value, which have been determined by valuations performed by an independent appraiser, where material changes in value have occurred as at 30 June 2012. Independent valuers, who are industry specialists in valuing these types of investments, were retained to complete valuations for the company.

**7 PROPERTY, PLANT AND EQUIPMENT**

Furniture and fixtures		
Cost	2,266	2,266
Accumulated depreciation	(1,510)	(755)
Carrying amount	756	1,511
Opening balance at 1 July	1,511	2,266
Additions during the year	-	-
Depreciation the year	(755)	(755)
Ending balance at 30 June	756	1,511

**8 OTHER ASSETS**

Lease incentive	5,700,000	5,300,000
Accumulated amortisation for the year	(1,539,762)	(971,667)
Carrying amount	4,160,238	4,328,333
Opening balance at 1 July	4,328,333	4,858,333
Additions during the year	400,000	-
Amortisation during the year	(568,095)	(530,000)
Ending balance at 30 June	4,160,238	4,328,333

The incentive relates to the fitout contribution costs reimbursed by the company to its lessees, Brisbane City Council and Brisbane Marketing Pty Ltd. This incentive is amortised over the term of the lease up to 2019 (see note 14(b)).

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

	Note	2012 \$	2011 \$
<b>9 ACCOUNTS PAYABLE AND ACCRUED EXPENSES</b>			
Trade creditors and accrued expenses		3,513,357	552,790
Payable to Brisbane City Council	14(b)	10,725	30,715
GST, PAYG and payroll taxes		15,486	96,457
Accrued annual leave		12,314	9,589
		<u>3,551,882</u>	<u>689,551</u>
<b>10 SHARE CAPITAL</b>			
135,138,512 Ordinary shares fully paid up to \$1 each		<u>135,138,512</u>	<u>135,138,512</u>
		<u>135,138,512</u>	<u>135,138,512</u>
The company declared and paid dividends to Brisbane City Council amounting to \$10 million during the year (2011: \$6 million).			
<b>11 RESERVES</b>			
Fair value reserve			
Opening balance		3,153,274	(2,036,924)
Net unrealised fair value movement during the year		<u>(8,385,157)</u>	<u>5,190,198</u>
Ending balance		<u>(5,231,883)</u>	<u>3,153,274</u>

Fair value reserve comprises the cumulative net change in the fair value of available for sale financial assets until the investments are derecognised or impaired.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

	Note	2012 \$	2011 \$
<b>12 CASH AND CASH EQUIVALENTS</b>			
<b>Reconciliation of cash</b>			
Cash balance comprises:			
- Cash at bank		455,072	93,876
- Short-term investments		45,389,026	51,593,387
Cash and cash equivalents		45,844,098	51,687,263
 <b>Reconciliation of total comprehensive income to the net cash flows from operating activities</b>			
Total Comprehensive Income		18,433,837	21,042,926
Non-cash items			
Revaluation of available for sale financial assets		8,385,157	(5,190,198)
Net gain on disposal of available for sale financial assets		(329,550)	-
Fair value gain on investment property		(17,423,213)	(6,325,443)
Investment management fees		330,753	660,478
Amortisation of lease incentive		568,095	530,000
Depreciation		755	755
(Increase)/decrease in receivables		(616,723)	(1,013,663)
Increase in accounts payable and accrued expenses		5,081,216	1,108,562
Sale proceeds from available for sale financial assets		30,329,548	-
Additions to investment property		(40,203,040)	(34,466,161)
Payment for lease incentive		(400,000)	-
		(14,277,002)	(44,695,670)
<b>Net cash flows from operating activities</b>		<b>4,156,835</b>	<b>(23,652,744)</b>

**13 SEGMENT INFORMATION**

The Company operates in one business segment, being that of an investment company. The Company operates from Australia only and therefore has only one geographical segment.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2012

### 14 RELATED PARTY TRANSACTIONS

#### (a) Key Personnel

##### Directors

- Mark V Brodie (Chairman)
- Neil E Castles
- Craig G Spencer
- Michael J S Knox
- Jane A Edwards
- Maria A Roach
- Colin D Jensen
- Greg C Evans (Alternate of Colin D Jensen)

##### Company Secretary

- David M Askern

##### Chief Executive Officer

- Mark E Mazurkiewicz

During the financial year, Directors of the company and key management personnel have received or become entitled to receive directors fees and compensation totalling \$500,462 (2011: \$557,021).

#### (b) Transactions with Brisbane City Council, the ultimate and Australian controlling entity:

The company has recognised in the financial statements amounts for services supplied by BCC to the company. These include legal, accounting, internal audit services and recharge of expenses in the aggregate amount of \$127,048 (2011: \$115,379). These transactions were based on normal commercial terms and conditions. The company also reimbursed Council for expenses and capital expenditure spent by the latter on behalf of the company amounting to \$1,708,962 (2011: \$70,743). At balance date, total amount payable to BCC in relation to these services amounted to \$10,725 (2011: \$30,715).

During the year, BCC transferred surplus land to the company with aggregate value of \$1,897,034 (Note 6).

The company leases office spaces and a shipyard facility to BCC with remaining lease term of 7 years to 28 years. Total rental earned during the year in relation to these leases amounted to \$5,426,858 (2011: \$4,808,602), gross of lease incentive amortisation of \$530,000 (2011: \$530,000). These transactions were based on normal commercial terms and conditions. At balance date, total amount receivable from BCC in relation to these transactions amounted to \$272,878 (2011: \$8,074).

#### (c) Transactions with Brisbane Marketing Pty Ltd, a subsidiary of BCC

The company leases office spaces with Brisbane Marketing Pty Ltd for a period of 7 years from November 2011. Total rent earned during the year in relation to this lease amounted to \$395,097 (2011: nil), gross of lease incentive amortisation of \$38,095. This transaction was based on normal commercial terms and conditions.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

**15 FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management Framework**

The Board provides written principles for overall risk management as well as written policies covering specific areas such as market, credit and liquidity risk. The activities are reviewed and monitored by the company's Investment and Risk Committee.

**(b) Market Risk**

Market risk is the risk of underlying economic conditions which impact interest rates and security prices and may affect the value of financial assets. The company is indirectly exposed to market risk through its investments in unlisted unit trusts (classified as available for sale financial assets). The company manages security price risk by investing in a unit trust which in turn invests in a diversified portfolio of securities. In addition, there is an approved investment strategy, with limits set by the Board, for each class of assets.

**Interest Rate Risk**

Interest rate risk refers to possible fluctuations in the values of financial instruments as a result of changes in market rates. Exposure to interest rate arises predominantly from assets bearing variable interest rates as the company intends to hold financial assets to maturity. The company mitigates this risk by investing in short term deposits. The following details the company's sensitivity to an expected 1% maximum fluctuation in interest rates if all other variables were held constant. This is also based on the assumption that the company is holding the same amount of investment for one year.

**Increase / (Decrease) in Net Profit**

	2012	2011
	\$	\$
1% increase in interest rate	458,441	516,873
1% decrease in interest rate	(458,441)	(516,873)

**(c) Liquidity Risk**

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities. The company manages liquidity risk by continuous monitoring of cash flows. The following sets out the contractual maturity of the company's financial assets and financial liabilities:

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

**(c) Liquidity Risk (continued)**

	Weighted Average Interest Rate*	Interest Bearing (Variable) \$	Non- Interest Bearing \$	Total \$
<b>2012</b>				
<b>Financial Assets</b>				
Cash	3.25%	455,072	-	455,072
Cash short term investments - term deposits	5.38%	41,265,795	-	41,265,795
Cash short term investments - 11 am	4.22%	4,123,231	-	4,123,231
Receivables		-	2,110,143	2,110,143
Available for sale financial assets		-	13,781,345	13,781,345
<b>Total financial assets</b>	5.25%	<u>45,844,098</u>	<u>15,891,488</u>	<u>61,735,586</u>
<b>Financial Liabilities</b>				
Payables		-	3,551,882	3,551,882
<b>Total financial liabilities</b>		<u>-</u>	<u>3,551,882</u>	<u>3,551,882</u>
<b>Net financial assets</b>		<u>45,844,098</u>	<u>12,339,606</u>	<u>58,183,704</u>

	Weighted Average Interest Rate*	Interest Bearing (Variable) \$	Non- Interest Bearing \$	Total \$
<b>2011</b>				
<b>Financial Assets</b>				
Cash	4.50%	93,876	-	93,876
Cash short term investments - term deposits	5.96%	49,385,172	-	49,385,172
Cash short term investments - 11 am	5.58%	2,208,215	-	2,208,215
Receivables		-	1,493,420	1,493,420
Available for sale financial assets		-	52,497,253	52,497,253
<b>Total financial assets</b>	5.94%	<u>51,687,263</u>	<u>53,990,673</u>	<u>105,677,936</u>
<b>Financial Liabilities</b>				
Payables		-	689,551	689,551
<b>Total financial liabilities</b>		<u>-</u>	<u>689,551</u>	<u>689,551</u>
<b>Net financial assets</b>		<u>51,687,263</u>	<u>53,301,122</u>	<u>104,988,385</u>

\* The interest rates relate to the weighted average interest rate for financial assets existing at balance date.



**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2012**

**(d) Credit Risk**

Credit Risk is the risk that a counterparty fails to meet its obligations and the company's exposure is from cash and available for sale financial assets. The credit risk of financial assets is the carrying amount net of any impairment.

The company's properties are substantially leased to Brisbane City Council and other high credit quality companies (see note 14).

The company's receivables are considered current and are aged less than 30 days. There are no assets impaired.

**(e) Fair Value**

- (i) Financial assets include investments in managed funds which are carried at fair value. Fair value of available for sale financial assets is based on redemption price provided. Due to the nature of cash, accruals, other financial assets and financial liabilities the net fair value approximates their carrying amount.

- (ii) Fair value hierarchy classification

In accordance with *AASB7 Financial Instruments: Disclosures*, the company classifies fair value measurements using a fair value hierarchy. The fair value hierarchy reflects the subjectivity of the inputs used in making the measurements. The company used level 1 fair value at balance date.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

	Note	2012 \$	2011 \$
<b>Level 1</b>			
Available for sale financial assets	15(c)	13,781,345	52,497,253
		<u>13,781,345</u>	<u>52,497,253</u>

**16 COMMITMENTS**

Capital expenditure contracted for at balance date but not provided for in the financial statements is payable as follows:

Not later than 1 year	47,259,441	3,256,721
Later than 1 year but not later than 5 years	-	637,450
Later than 5 years	-	-
	<u>47,259,441</u>	<u>3,894,171</u>

**17 LEASES**

Future operating lease rentals of investment property contracted for at balance date but not provided for in the financial statements are receivable as follows:

Not later than 1 year	12,547,065	7,126,064
Later than 1 year but not later than 5 years	81,059,779	32,919,181
Later than 5 years	139,036,193	67,987,312
	<u>232,643,037</u>	<u>108,032,557</u>

**18 SUBSEQUENT EVENTS**

At the date of signing, there were no events subsequent to balance date which would have a material effect on the company's financial statements.

**19 AUDITOR'S REMUNERATION**

Amounts received or due and receivable by the Auditor-General of Queensland for:

An audit of the financial report of the company	12,500	12,000
Non-audit services in relation to the company	-	-
	<u>12,500</u>	<u>12,000</u>

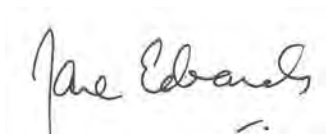
## Directors' Declaration

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 25 to 41:
  - (a) comply with Accounting Standards and the *Corporations Act 2001*; and
  - (b) give a true and fair view of the financial position as at 30 June 2012 and performance for the year ended on that date of the company and economic entity
2. In the Directors' opinion there are reasonable grounds to believe that the company 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 Board of Directors.

On behalf of the Board



Jane Edwards  
Director



Maria Roach  
Director

Brisbane, 21 August 2012

## Independent Auditor's Report

To the Members of City of Brisbane Investment Corporation Pty Ltd

### Report on the Financial Report

I have audited the accompanying financial report of City of Brisbane Investment Corporation Pty Ltd which comprises the Statement of Financial Position as at 30 June 2012, Statement of Comprehensive Income, Statement of Changes in Equity and Cashflow Statement for the year ended on that date, a Summary of Significant Accounting Policies, other explanatory notes and the Directors' Declaration.

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

The Directors of the company 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 to the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporates the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about 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 risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design and 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 and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Independence*

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the City of Brisbane Investment Corporation Pty Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In my opinion –

- (a) The financial report of City of Brisbane Investment Corporation Pty Ltd is in accordance with the *Corporations Act 2001*, including –
  - (i) giving a true and fair view of the company's financial position as at 30 June 2012 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*.



D A STOLZ FCPA  
as delegate of the Auditor-General of Queensland  
21 August 2012

Queensland Audit Office  
Brisbane