

**City of Brisbane Investment Corporation**

# **2011 Annual Report**

**Audited Results**



## Foreword

In keeping with my commitment to run a financially responsible council administration, I am pleased to endorse the 2010/11 City of Brisbane Investment Corporation Annual Report.

For the third year in succession, CBIC have provided strong value for investment to Brisbane ratepayers, despite the current challenging economic climate.

At a time when cost of living pressures are impacting on household budgets, the CBIC have assisted in limiting the burden on Brisbane residents and I congratulate the Board for all they have achieved over the past year.

As this report demonstrates, the CBIC has again outperformed similar organisations. While other funds achieved returns of between 8% and 10%, the CBIC's return of 12.48% demonstrates its real value to the people of Brisbane.

The CBIC's strategy, continued capital appreciation of its property portfolio and strong returns on domestic equity funds and cash instruments, means Council can deliver better services in our suburbs and vital infrastructure to keep our city moving.

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



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

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

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# 1 Chairman's Report

The City of Brisbane Investment Corporation (CBIC) has performed well in the 2010/2011 financial year, by achieving 12.48% return on shareholder's equity and recording a total return of \$21.04 million.

This is another year CBIC has achieved above market returns and reflects the strength of its investment management, coupled with continued acquisition of strong income and capital growth assets. The results for 2011 are well above CBIC's long term investment return benchmark of CPI plus 4.5% to 5.5%.

In comparison to its individual asset class benchmark returns, being the Mercer/IPD Australian Pooled Property Fund Index (9.8%), the S&P/ASX 200 Accumulation Index (11.7%), the S&P/ASX300 Accumulation Index (11.9%) and UBSA Bank Bill Index (4.94%), the CBIC fund has performed very well. CBIC's property investment portfolio showed an annualised total return of 18.6%, its managed equities returned 14.7% and its cash short term investments returning 5.98%.

In a time of challenging economic conditions the Board has maintained a focus on strategic investment principles and business management, to ensure prudent investment parameters are adhered to in its decision making processes.

The Board regularly reviews CBIC's risk management framework and policies; continually refining investment strategies to meet current market conditions. This approach ensures the balance between risk and investment return is achieved at all times.

CBIC's long term goals include:

- Achieving investment returns that exceed CBIC's long term and individual asset class benchmarks;
- Adding value to Brisbane City Council's (Council) underutilised land; and
- Acquiring or developing suitable assets that meet Council's and, the private sector's accommodation requirements on a market based comparison.

Some accommodation solutions include the acquisition of an industrial facility at Eagle Farm, which will be partially occupied and used by Council's warehouse and file storage operations. The building also accommodates a number of national private sector tenants, which adds to the strength of Council's covenant held over the property. Another site has been acquired to develop a new Council business centre at Yeerongpilly, which will provide vastly improved facilities and services for the whole southern Brisbane resident population.

CBIC through Council's and other private sector covenants achieves significant capital and income returns on these assets and by doing so also improves Council's provision and delivery of services for the residents of Brisbane. The outcome of these acquisitions is that significant capital value has been added to the fund, which ultimately accrues to Council.

The Board has reviewed many opportunities and projects over the past year. It is important that we maximise returns and value to the residents of Brisbane, and on this basis only investments that provide superior returns and align with CBIC's business strategy are entered into.

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

Decisions will be carefully scrutinised and will be based on expert analysis. Ultimately CBIC's objective is to invest in opportunities that add value and continue to provide strong total returns to the portfolio.



**Mark Brodie**  
**Chairman**

Given the continued uncertainty in the domestic and global economic markets, I am pleased with the continued strong performance of CBIC's assets which is reflected in another very good result. We intend to build on this outcome and look forward to delivering strong investment returns and long term capital growth.

On 15 June 2011, the Board declared an annual dividend of \$6.0 million, which was paid in two tranches in November 2010 and June 2011, to the Council.

In summary, I would like to thank the Board for their contribution over the year. During the year Stephen Conry elected to resign from the Board due to ongoing commitments with Jones Lang LaSalle, as CEO of its Australian operations. I would like to thank Stephen for his commitment and contribution to CBIC and the Board.

I would also like to thank the ongoing support and efforts of the team at Council, and welcome Mark Mazurkiewicz to CBIC, who joined us as the new Chief Executive Officer in May 2011.



**Mark Brodie**  
Chairman

Cullen Ave, Eagle Farm – Industrial Warehouse and Office Facility



## 2 Operational Report

### 2.1 Overview

CBIC has performed well in its third full year of operation, despite difficult economic conditions continuing in domestic and global markets. CBIC's strategy of investing funds into high quality industrial property and cash investment was achieved during the year. Major highlights include:

- acquiring 112 Cullen Ave, Eagle Farm and Rivergate Shipyard industrial facilities;
- finalising office development proposals for Green Square and Yeerongpilly;
- reviewing risk management and corporate governance policies; and
- ensuring the business strategy aligns with current economic conditions and long term strategies.

*CBIC's net return on investment for the year was 12.48%*

CBIC's total net return on investment for the period was a strong 12.48%, recording \$21.04 million.

This compares favourably against other comparable funds market benchmarks ranging between 8.0% to 10.0%. The 2009/10 return, excluding BAC share sale, provided a net return on investments of 11.8% ending 30 June 2010.

CBIC's equity portfolio investments also performed very well, providing above market returns of 14.7% over 2010/11.

During 2011 CBIC invested in industrial property, therefore reducing its investment in term deposits and other cash facilities. CBIC sees these properties as having significant market value uplift.

Further details on these results and CBIC's financial position at 30 June 2011 are outlined below.

### 2.2 Operating Result

Of the \$21.04 million total return, CBIC recorded a total net operating profit of \$15.85 million for the year ended 30 June 2011. The total return of \$21.04 million equates to 12.48% return on shareholder's equity.

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

Key drivers underlying the operating profit were:

- Fair Value increases in the commercial property investment portfolio, being 157 Ann Street, Brisbane, Rivergate Shipyard, Murarrie and Cullen Ave, Eagle Farm;
- Above market returns on equity portfolio investments;
- Strong rental income from the commercial property portfolio;
- Strong returns on term deposits with the four major banks which were above normal wholesale rates; and
- Effective cost control resulting in low overheads.

Approximately 28% of investments are in cash at 30 June 2011 which reduced from 48% at 30 June 2010. The reduction in cash investments reflects the purchase of Rivergate Shipyard (Murarrie), Cullen Ave (Eagle Farm) and costs associated with development approval expenses for office developments at Yeerongpilly and Fortitude Valley.





## Review of Results

Details of CBIC's comprehensive income for the year ended 30 June 2011 and the prior financial year are:

Comprehensive Income	2011 \$'000	2010 \$'000
Interest	4,191	3,886
Net rent	6,040	3,563
Equity distributions	2,060	1,151
Fair value gains on property* assets	6,325*	11,482
Gain on disposal of BAC shares	-	17,792
Fair value gain on equity investments	5,190	(2,037)
<b>Expenses</b>		
General and administration	189	156
Commercial buildings	1,279	752
Employment costs	345	307
Managed equity fund fees	669	286
Directors' fees	281	289
<b>Total expenses</b>	<b>2,763</b>	<b>1,790</b>
<b>Total Comprehensive Income</b>	<b>21,043</b>	<b>34,047</b>

Source: CBIC Audited Profit and Loss Statement for the year ended 30 June 2011

\* 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 5.98% (2010 = 5.0%) with approximately 28% of CBIC's assets being cash and cash equivalents at 30 June 2011. 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 buildings at 112 Cullen Ave, Eagle Farm and Rivergate Shipyard at Murarrie. The Cullen Ave property will accommodate Council's consolidated file repository and inventory storage requirements for the inner city area. In addition there are a number of national tenants. The Rivergate Shipyard has berthing and commercial tenants as well as having a repair and maintenance centre for Council's fleet of CityCats.

Further investment was made in 157 Ann St by improving the lift management and mechanical systems. A significant amount of time has been invested in seeking to secure a high quality tenant prior to the exit of QR on Level 9 of the building. Heads of agreement with a key tenant were achieved just prior to the end of 30 June 2011, maximising the occupancy of the building.

The building is fully leased with CBIC securing strong ongoing rental returns of approximately 10.0% for the year based on the building's fair value at 30 June 2010. The property was valued at \$37 million at year end, recording a gain of \$2.0 million due mainly to improvement in Brisbane's CBD office market conditions.



CBIC's equity fund investments generated income returns of \$2.06 million during the year, together with a market value gain on the portfolio of \$5.19 million in 2010/11; the total return on equity investments was well above market at 14.7%.

CBIC's assets continue to be assessed and accounted for based on fair value methodology. For the financial year ending 30 June 2011, the net fair value gain on property assets was \$6.32 million, with the majority of this increase accounted for by Rivergate Shipyard (\$4.0 million) and a \$2.0 million increase for 157 Ann Street, Brisbane.

Operating expenses were tightly controlled during the year with CBIC taking advantage of Council's preferred supplier arrangements and, when and where appropriate, CBIC running its own procurement processes.

## 2.3 Dividend

A final dividend of \$6.0 million was paid in the 2011 financial year, with \$2.0 million paid in December 2010 and the balance \$4.0 million paid in June 2011. This is an increase from the \$3.0 million dividend paid in the 2010 financial year.

## 2.4 Net Assets

CBIC's net assets increased from \$169 million at 30 June 2010 to \$184 million at 30 June 2011. This is a \$15 million increase or approximately 9.0% growth in net assets over a 12 month period. This growth has mainly come from CBIC's continued investment in commercial property assets at Cullen Ave, Rivergate Shipyards and 157 Ann Street and from the strong performance of the equity portfolio. This was supported by the continued strong cash returns earned on deposits.

Since 30 June 2009 the fund's assets have grown by \$46 million or 33.5%.

CBIC's net asset position at 30 June 2011 was as follows:

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

Source: CBIC Audited Balance Sheet 30 June 2011

All investments are recorded at fair value at 30 June 2011.



## 3 Investment Summary

### 3.1 Overview

CBIC's total return for the year was a strong 12.48%. This is well above CBIC's long term investment return benchmark of CPI plus 4.5% to 5.5%. The Australian headline CPI rate for the 2011 financial year was 3.6%, and therefore the higher end of the expected performance range for CBIC would equate to 9.1%.

The approximate investment mix at 30 June 2011 was 29% in equities, 40% in commercial property, 28% in cash and 3% in other capital items. Cash levels remain high. This cash will be utilised to fund further development projects. It is expected that CBIC will be fully invested in property and equities, and therefore cash levels will reduce accordingly, over the next 12 months.

*The total annualised return on property was a strong 18.6%*

Weighted interest returns on cash investments averaged 5.98% which compares favourably with its benchmark the UBSA Bank Bill Index average of 4.94% for 2011.

The rental yield on the property portfolio (after amortisation of incentives) maintained a strong annualised rate of approximately 10.7% for the year. The total annualised return on property, including capital growth, is 18.6%. This strong annualised return was achieved after the acquisition of Rivergate Shipyard and Cullen Ave in late February 2011. The overall market return was achieved by acquiring the two industrial sites with part vacancies and then securing Council and other private sector tenants on a market competitive basis. This provided the rental return and market value uplift.

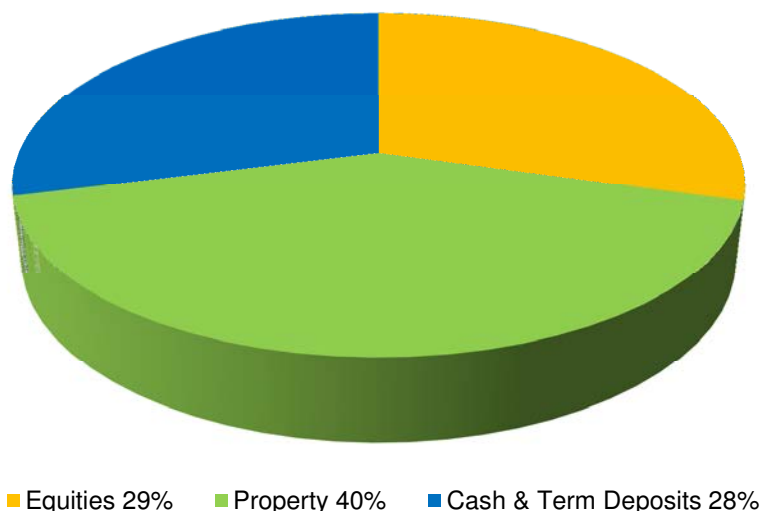
In addition, the strength of the underlying tenant covenants and weighted average lease expiry profile (WALE) of each property, coupled with a tightening in average market yields for commercial property in South East Queensland, were major drivers of the higher than average return for the period.

The CBIC total property return of 18.6% far exceeded the Mercer / IPD Australian Pooled Property Fund Index benchmark of 9.8% for the year to 30 June 2011.

CBIC's equity fund investments yielded \$2.06 million in distributions during the period which represents a 3.92% return on investment. Overall equity performance showed a total return (inclusive of distributions) of approximately 14.7% for the year. This return was above the S&P/ASX200 Index annual returns of 11.7% which is CBIC's benchmark return for equities.

### 3.2 Asset Allocation

CBIC's Asset Allocation as at 30 June 2011 was:



The remaining 3% 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 two years.

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

Asset Class	Fair Value 2011 \$ million	Fair Value 2010 \$ million	Increase/(Decrease) \$ million
Australian Equities*	52.5	48.0	4.5
Property	74.3	35.1	39.2
Cash	51.7	81.3	(29.6)
Receivables and Other	5.8	5.3	0.5
<b>Total Assets</b>	<b>184.3</b>	<b>169.7</b>	<b>14.6</b>

\* Net of management fees

### 3.3 Cash

CBIC has continued to invest in term deposits with major Australian banks.

At 30 June 2011, the amount held in short term deposits totalled \$51.7 million. In accordance with the liquidity policy a balance of approximately \$3.5 to \$5.0 million was retained with the QTC Cash Fund (24 Hour Call) throughout the financial year.

Average QTC Cash Fund returns for the year were 5.58% resulting in an out performance over the annual average rate of 0.64% on its benchmark UBS Bank Bill Index of 4.94%.

*Term deposit  
returns of 5.98%  
significantly  
outperformed the  
UBS Bank Bill  
Index of 4.94%.*

Continued focus on treasury and cash flow management has been very important. CBIC has developed strong relationships with the 'big four' banks and QTC and this has resulted in superior cash returns over the year.

### 3.4 Property

#### 3.4.1 Cullen Ave, Eagle Farm

CBIC settled the purchase of the industrial property in Cullen Ave, Eagle Farm on 24 February 2011. The site is located in close proximity to the main Kingsford Smith Drive route to the Brisbane CBD and link to the Inner City Bypass. Additionally it is less than a kilometre away from the Gateway motorway link both North and South.

The building is 11,855 square metres located on a land area of 20,080 square metres. It is intended for Council to occupy 5,487 square metres of the total building area in mid 2012, which is currently tenanted by other parties. This property will accommodate the consolidation of Council's file repository facility and operational storage requirements for the inner city area.

The building accommodates a number of key national tenants with long term leases in place. The current WALE of approximately 2.5 years will increase to 7 years upon Council's occupancy and will provide a solid income stream and return to the whole investment portfolio.



#### 3.4.2 157 Ann Street, Brisbane



157 Ann Street, Brisbane remains CBIC's cornerstone commercial property investment. After a fair value increase of approximately \$2.0 million during the year, to \$37 million, the property's rental yield remained strong at approximately 10% for the period.

The building remains fully leased despite one floor becoming vacant on 30 June 2011. Heads of agreement had been reached with a significant new tenant, to occupy Levels 8 and 9 at the time of writing this report. Council intends to surrender Level 8, in agreement with CBIC, as part of Council's accommodation strategy.

Strong tenants and a forecast weighted average lease expiry of approximately 7.6 years for 2012 will continue to underpin the value of the building. The property was purchased initially for \$21.5 million (plus statutory charges) in August 2009. Since its purchase, capital upgrades of approximately \$1 million 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.



### 3.4.3 Rivergate Shipyard, Murarrie



CBIC settled the Rivergate Shipyard at Murarrie on 16 February 2011.

The state-of-the-art ferry maintenance facility was purchased in consultation with Council, to accommodate Council's expanding City Cat fleet.

This supports CBIC's aim to add significant value to the investment portfolio by understanding the needs of Council and then acquiring quality assets that meet Council's needs.

The property is leased to Council until early 2041, which provides a stable, long term cashflow benefit to CBIC.

### 3.4.4 Other Opportunities

CBIC has also entered into a Heads of Agreement with Council to construct the 4,400m<sup>2</sup> (net area) South Regional Business Centre in Brisbane's south, with a long term tenancy arrangement with Brisbane City Council.

CBIC has selected ADCO Constructions to construct the new SRBC office building at Yeerongpilly. Construction is anticipated to commence in late July 2011 with practical completion forecast for late June 2012.



Another exciting property development opportunity was identified in the financial year, with a proposal to develop 16,000 square metres of A grade office space at Green Square Close, Fortitude Valley.

This 11 storey building will meet existing commercial office demand within the precinct. A 40% pre-commitment to the development is anticipated in the coming year, with construction expected to start prior to September 2011. Practical completion expected before June 2013.

ADCO Constructions won the tender to construct this building.

## 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 2010/11 is as follows:

Performance	Platypus*	All Star*
Benchmark return	11.90%	11.73%
Actual return	12.36%	18.28%
Outperformance	0.46%	6.55%
Benchmark	S&P/ASX 300	S&P/ASX 200

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

Both funds have performed well historically when compared to other funds and the benchmark indices listed above. However, like any investment, the market values of the units held in these investments are subject to volatility and performance of the broader economy.

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

## 4 Outlook

The 2010/11 year has been an exciting year of new investments and planned projects for CBIC. The operating result and total return were well above market benchmarks again. The 2011/12 financial year is expected to be more in line with economic forecasts of the broader economy; matching CBIC's targeted returns of CPI plus 4.5% to 5.5%.

A strong pipeline of potential development and investment proposals are being reviewed by CBIC. These opportunities are expected to see CBIC fully invested in long term assets within the next 12-18 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 by enhancing underutilised assets in Council's asset base and other market opportunities available as a result of economic trends.

CBIC's focus over the next 12 months will be to manage the projects in progress, including the development of the South Regional Business Centre office building and the Green Square Close, Fortitude Valley project and seeking pre-commitments.

## 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 Brisbane residents.

In meeting this objective, CBIC will use an investment philosophy built on:



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
Cash	UBS Australian Bank Bill Index over a rolling one year period
Australian Equities	Standard and Poor's ASX200 Accumulation Index
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 portfolio, CBIC's investment mix will be weighted to property.

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

## **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 sector 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 40% 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.


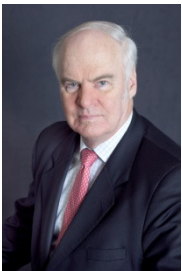


## 6 CBIC Board





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><b>Neil CASTLES</b> Director</p> 	<p>Neil is a Deputy Director General at Queensland Health. 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>Stephen CONRY</b> Director</p> 	<p>Stephen is an International Director and the Australian Chief Executive Officer of Jones Lang LaSalle, one of the world's largest property services firms. Stephen resigned from CBIC as a Director in April 2011. His position on the Board has not been replaced at this time.</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 Practicing 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> Company Secretary</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, industrial relations and local government.</p>
<p><b>Greg EVANS</b> Alternate Director for Colin Jensen</p> 	<p>Greg Evans 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> Chief Executive Officer</p> 	<p>Mark Mazurkiewicz joined CBIC in May 2011 as Chief Executive Officer, after Jim Sturgess resigned from CBIC on 30 April 2011. 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 2011, and the number of meetings attended by each director were:

Attendees	Investment		Finance & Audit		Business & Protocol	
	A	B	A	B	A	B
M Brodie	11	11	*	*	*	*
N Castles	11	11	3	3	*	*
S Conry	8	8	*	*	*	*
J Edwards	*	*	*	*	2	2
M Knox	10	11	*	*	*	*
J Munro	*	*	*	*	*	*
M Roach	*	*	3	3	2	2
C Spencer	7	11	*	*	*	*
D. Askern	*	*	3	3	2	2
G Evans	*	*	*	*	2	2

**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 7, 157 Ann Street, Brisbane, Queensland, Australia.

The Directors present their report together with the Financial Report of the company for the financial year ended 30 June 2011.

### 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**
- Stephen W **CONRY** (Resigned 31 March 2011)
- Jane A **EDWARDS**
- Michael J S **KNOX**
- Judith R **MUNRO** (Resigned 25 August 2010)
- Maria A **ROACH**
- Craig G **SPENCER**
- Greg C **EVANS** (Alternate of Colin D Jensen & Judith R Munro)
- Colin D **JENSEN** (Appointed 20 September 2010)

### 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 2011 was a total comprehensive income of \$21,042,926.

### 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 property.

During the year, the company acquired two investment properties which are being leased to Council and third parties.

The company has also incurred pre-development costs for the construction of two additional investment properties.

The company also declared and paid dividends to Brisbane City Council amounting to \$6 million during the year (2010: \$3 million).



## Directors' Report

### Events after Balance Date

CBIC has entered into two construction contracts subsequent to 30 June 2011 for amounts totalling \$70 million over two years.

### Directors' Benefits

During the financial year, Directors of the company have received or become entitled to receive directors' fees totalling \$281,359.

### 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	10	11
Craig G Spencer	9	11
Michael J S Knox	11	11
Jane A Edwards	8	11
Maria A Roach	10	11
Colin D Jensen (Appointed 20 September 2010)	7	9
Greg C Evans (Alternate of Colin D Jensen & Judith R Munro)	3	3
Judith R Munro (Resigned 25 <sup>th</sup> August 2010)	0	2
Stephen W Conry (Resigned 31 March 2011)	5	8

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.



Mark Brodie  
Chairman  
Brisbane, 19 October 2011



Neil Castles  
Director

## Auditor's Independence Declaration

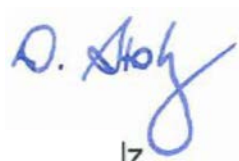
### To the Directors of the City of Brisbane Investment Corporation Pty Ltd

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 2011, 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

13 October 2011

## Statement of Comprehensive Income for the year ending 30 June 2011

	Note	2011 \$	2010 \$
<b>INCOME</b>			
<b>Revenue</b>			
Rental income	2	6,039,709	3,563,006
Interest		4,191,344	3,886,446
Distribution income		2,059,784	1,150,554
		<u>12,290,837</u>	<u>8,600,006</u>
<b>Other Income</b>			
Gain on disposal of financial assets held for sale	5	-	17,791,787
Fair value gain on investment property	6	6,325,443	11,482,022
		<u>18,616,280</u>	<u>37,873,815</u>
<b>Expenses</b>			
Employee costs	3(a)	345,378	306,929
Directors fees		281,359	288,819
Building expenditure		1,278,516	752,475
Investment management fees		669,113	286,427
Other expenses	3(b)	189,186	155,547
		<u>2,763,552</u>	<u>1,790,197</u>
<b>Net Profit for the period</b>		<u>15,852,728</u>	<u>36,083,618</u>
<b>Other comprehensive income</b>			
Net unrealised fair value gain (loss) on financial assets held for sale	11	5,190,198	(2,036,924)
Other comprehensive income		5,190,198	(2,036,924)
<b>Total comprehensive income attributable to members of the company</b>		<u>21,042,926</u>	<u>34,046,694</u>

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

## Statement of Financial Position as at 30 June 2011

	Note	2011 \$	2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	12	51,687,263	81,340,007
Receivables	4	1,493,420	479,757
<b>Total Current Assets</b>		<b>53,180,683</b>	<b>81,819,764</b>
<b>NON CURRENT ASSETS</b>			
Financial assets held for sale	5	52,497,253	47,967,533
Investment property	6	74,340,544	35,073,464
Property, plant and equipment	7	1,511	2,266
Other Assets	8	4,328,333	4,858,333
<b>Total Non Current Assets</b>		<b>131,167,641</b>	<b>87,901,596</b>
<b>Total Assets</b>		<b>184,348,324</b>	<b>169,721,360</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	9	689,551	1,105,513
<b>Total Current Liabilities</b>		<b>689,551</b>	<b>1,105,513</b>
<b>Total Liabilities</b>		<b>689,551</b>	<b>1,105,513</b>
<b>Net Assets</b>		<b>183,658,773</b>	<b>168,615,847</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	10	135,138,512	135,138,512
Retained profits		45,366,987	35,514,259
Fair value reserve	11	3,153,274	(2,036,924)
<b>Total Shareholder's Equity</b>		<b>183,658,773</b>	<b>168,615,847</b>

*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 2011
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<b>2011</b>	<b>Total</b>	<b>Note 10 Share capital</b>	<b>Note 11 Fair Value Reserve</b>	<b>Retained Profits</b>
	\$	\$	\$	\$
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	5,190,198	-	5,190,198	-
Distribution to Shareholder – Brisbane City Council	(6,000,000)	-	-	(6,000,000)
Balance at end of year	<u>183,658,773</u>	<u>135,138,512</u>	<u>3,153,274</u>	<u>45,366,987</u>

<b>2010</b>	<b>Total</b>	<b>Note 10 Share capital</b>	<b>Note 11 Fair Value Reserved</b>	<b>Retained Profits</b>
	\$	\$	\$	\$
Balance at beginning of year	137,569,153	135,138,512		2,430,641
Net Profit	36,083,618	-	-	36,083,618
Other comprehensive income	(2,036,924)	-	(2,036,924)	-
Distribution to Shareholder – Brisbane City Council	(3,000,000)	-	-	(3,000,000)
Balance at end of year	<u>168,615,847</u>	<u>135,138,512</u>	<u>(2,036,924)</u>	<u>35,514,259</u>

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

## Statement of Cash Flows for year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from tenants		7,098,349	4,289,650
Payments to suppliers and employees		(3,122,487)	(2,074,874)
Distributions received		1,418,437	723,495
Interest received		4,191,344	3,886,446
Net GST received from Australian Taxation Office		1,227,774	287,193
<b>Net Cash Flows Provided from Operating Activities</b>	12	10,813,417	7,111,910
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of other financial assets		-	(50,004,457)
Proceeds from sale of other financial assets		-	29,780,290
Acquisition of property, plant and equipment		-	(2,266)
Additions to investment property		(34,466,161)	(22,867,566)
Payment for lease incentive		-	(5,300,000)
<b>Net Cash Flows used in Investing Activities</b>		(34,466,161)	(48,393,999)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Share issue proceeds		-	-
Dividends paid		(6,000,000)	(3,000,000)
<b>Net Cash Flows provided from (used in) Financing Activities</b>		(6,000,000)	(3,000,000)
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		(29,652,744)	(44,282,089)
Cash at the beginning of the year		81,340,007	125,622,096
<b>CASH AT THE END OF THE YEAR</b>	12	51,687,263	81,340,007

*The Statement of Cashflows should be read in conjunction with the accompanying notes.*

## Notes to and forming part of the Financial Statements for the year ended 30 June 2011

### 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 18 October 2011.

#### (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.

#### (c) Revenue

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

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.

#### (d) 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.

#### (e) 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.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2011

In determining fair value, the expected net cash flows applicable to each property have been discounted to their present value using a market determined, risk-adjusted, discounted rate applicable to the respective asset.

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.

### (f) **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.

### (g) **Financial Assets held for Sale**

Available for sale investments which 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.

### (h) **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.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2011

### (i) 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, sick 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.

### (j) Taxation

#### (i) Income Tax

Income of local governing bodies and public authorities and their subsidiaries is exempt from income tax (including capital gains tax) due to 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 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.

Cashflows are included in the State of Cashflows on a gross basis. The GST components of cashflows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cashflows.

### (k) Share Capital

#### (i) 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.

#### (ii) Preference Share Capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2011**

	2011	2010
	\$	\$
<b>2. REVENUE AND OTHER INCOME</b>		
<b>Revenue</b>		
Rental income		
Gross rent	6,569,709	4,004,673
Less – amortisation of lease incentive	(530,000)	(441,667)
	<u>6,039,709</u>	<u>3,563,006</u>
<b>3. EXPENSES</b>		
<b>(a) Employee Costs</b>		
Wages and salaries	304,724	241,720
Annual leave benefits	-	9,589
Superannuation contributions	28,036	22,350
Fringe benefits	12,618	-
Contract staff	-	33,270
	<u>345,378</u>	<u>306,929</u>
<b>(b) Other Expenses</b>		
Legal fees	19,275	38,424
Payroll Tax	29,770	27,843
Project expenses	26,000	-
Audit fees – Queensland Audit Office	12,000	17,000
Accounting, internal audit and risk management fees	39,310	23,641
Recruitment Costs	-	13,192
IT and computer expenses	16,060	13,653
Insurance	15,634	-
Repairs and maintenance	4,272	6,405
Stationery and supplies	9,568	7,348
Telephone and communication	4,244	3,341
Depreciation	755	-
Other	12,298	4,700
<b>Total Other Expenses</b>	<u>189,186</u>	<u>155,547</u>
<b>4. TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Rent receivable	71,361	5,019
Distribution receivable	1,068,406	427,059
Deposits	183,333	2,440
Accrued income	169,820	37,156
Other receivables	500	8,083
	<u>1,493,420</u>	<u>479,757</u>



## Notes to and forming part of the Financial Statements for the year ended 30 June 2011

	2011	2010
	\$	\$

### 5. FINANCIAL ASSETS HELD FOR SALE

#### Non-Current

##### *Investment in managed funds – at market value*

Australian Unity Investments Platypus Australian Equities Trust	32,351,292	29,835,766
All Star IAM Australian Share Fund Institutional	20,145,961	18,131,767
	<u>52,497,253</u>	<u>47,967,533</u>

The total balance of investment in managed funds reflect unrealised gain of \$5,190,198 (2010: loss of \$2,036,924) resulting from the revaluation at balance date. This is included in Other Comprehensive Income.

In prior year, the company's equity investments in BAC Holdings Ltd with total cost of \$11,988,503 were disposed resulting in a gain of \$17,791,787.

### 6 INVESTMENT PROPERTY

Opening balance at 1 July	35,073,464	29,650
Additions:		
- Direct acquisition of investment property	31,232,515	23,488,328
- Property being constructed for future use as investment property	1,335,544	73,464
- Subsequent expenditure on investment property	373,578	-
Net gain from fair value adjustments to investment property	6,325,443	11,482,022
Closing balance at 30 June	<u>74,340,544</u>	<u>35,073,464</u>

Investment properties are carried at fair value, which has been determined based on valuations performed by independent appraisers, AssetVal Pty Ltd as at 30 June 2011. AssetVal is an industry specialist in valuing these types of investments.

### 7. PROPERTY, PLANT AND EQUIPMENT

#### Furniture and fixtures

Cost	2,266	2,266
Accumulated depreciation	(755)	-
Carrying amount	<u>1,511</u>	<u>2,266</u>

Opening balance at 1 July	2,266	-
Additions during the year	-	2,266
Depreciation the year	(755)	-
Ending balance at 30 June	<u>1,511</u>	<u>2,266</u>

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2011**

	2011 \$	2010 \$
<b>8. OTHER ASSETS</b>		
Lease incentive	5,300,000	5,300,000
Accumulated amortisation for the year	(971,667)	(441,667)
Carrying amount	<u>4,328,333</u>	<u>4,858,333</u>
Opening balance at 1 July	4,858,333	-
Additions during the year	-	5,300,000
Amortisation during the year	(530,000)	(441,667)
Ending balance at 30 June	<u>4,328,333</u>	<u>4,858,333</u>

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

**9 ACCOUNTS PAYABLE AND ACCURED EXPENSES**

Trade creditors and accrued expenses		356,938	263,840
Payable to Brisbane City Council	14(b)	30,715	700,726
GST, PAYG and payroll taxes		96,457	125,758
Revenue received in advance		195,852	5,600
Accrued annual leave		9,589	9,589
		<u>689,551</u>	<u>1,105,513</u>

**10. SHARE CAPITAL**

135,138,512 Ordinary shares fully paid up to \$1 each	135,138,512	-
123,150,009 Ordinary shares fully paid up to \$1 each	-	123,150,009
8,687,396 Ordinary shares fully paid up to @ \$0.69 each	-	5,994,303
5,994,200 Redeemable preference shares fully paid up to \$1 each	-	5,994,200
	<u>135,138,512</u>	<u>135,138,512</u>

On 3 December 2010, the 8,687,396 ordinary shares at \$0.69 each and the 5,994,200 redeemable preference shares at \$1 each were converted to 11,988,503 ordinary shares at \$1 each.

The company declared and paid dividends to Brisbane City Council amounting to \$6 million during the year (2010:\$3 million).

**11. RESERVES**

Fair value reserve		
Opening Balance	(2,036,924)	-
Movement	5,190,198	(2,036,924)
Ending balance	<u>3,153,274</u>	<u>(2,036,924)</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 2011**

	2011 \$	2010 \$
<b>12. CASH AND CASH EQUIVALENTS</b>		
<b>Reconciliation of cash</b>		
Cash balance comprises:		
- Cash at bank	93,876	129,297
- Short-term investments	51,593,387	81,210,710
Cash and cash equivalents	<u>51,687,263</u>	<u>81,340,007</u>
<b>Reconciliation of total comprehensive income to the net cash flows from operating activities</b>		
Total Comprehensive income	<u>21,042,926</u>	<u>34,046,694</u>
Non-cash items		
Net gain on disposal of other financial assets held for sale		(17,791,787)
Revaluation of other financial assets	(5,190,198)	2,036,924
Fair value gain on investment property	(6,325,443)	(11,482,022)
Investment management fees on financial assets held for sale	660,478	-
Amortisation of lease incentive	530,000	441,667
Depreciation	755	-
(Increase)/decrease in receivables	(1,013,663)	(471,828)
Increase in accounts payable and accrued expenses	1,108,562	332,262
	<u>(10,229,509)</u>	<u>(26,934,784)</u>
Net cash flows from operating activities	<u>10,813,417</u>	<u>7,111,910</u>

Substantial funds are held in cash and term deposits pending the opportunity to invest in higher yielding but more risky longer term property and equity.

**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 2011

### 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 (Appointed 20 September 2010)
- Greg C Evans (Alternate of Colin D Jensen & Judith R Munro)
- Judith R Munro (Resigned on 25 August 2010)
- Stephen W Conry (Resigned 31 March 2011)

##### Company Secretary

- David M Askern

##### Chief Executive Officer

- Mark E Mazurkiewicz (Appointed 3 May 2011)
- James R Sturgess (Resigned 30 April 2011)

During the financial year, Directors of the company and key management personnel have received or become entitled to receive directors fees and compensation totalling \$557,021 (2010: \$524,083).

#### (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 \$115,379 (2010:\$24,380). These transactions were based on normal commercial terms and conditions. The company also reimbursed Council for expenses made by the latter on behalf of the company amounting to \$70,743 (2010: nil). At balance date, total amount payable to BCC in relation to these services amounted to \$30,715 (2010: \$6,500).

The company leases office space and a shipyard facility to BCC for a period of 10 years to 2019. Total rental earned during the year in relation to these leases amounted to \$4,803,892 (2010:\$3,156,722), gross of lease incentive amortisation of \$530,000 (2010:\$441,667). These transactions were based on normal commercial terms and conditions.

In 2010, the company paid BCC a fitout contribution of \$5,300,000 for BCC's lease on 157 Ann Street.

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2011**

**15. FINANCIAL INSTRUMENTS**

**(a) Liquidity Risk**

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities. City of Brisbane Investment Corporation Pty Ltd manages liquidity risk by continuous monitoring cash flows. The following sets out the contractual maturity of CBIC's financial assets and financial liabilities

	<b>Weighted Average Interest Rate*</b>	<b>Interest Bearing (Variable) \$</b>	<b>Non- Interest Bearing \$</b>	<b>Total \$</b>
<b>2011</b>				
<b>Financial Assets</b>				
Cash	4.50%	93,876	-	93,876
Cash short term investments - term deposits	6.00%	49,385,172	-	49,385,172
Cash short term investments - - 11am	5.58%	2,208,215		2,208,215
Receivables		-	1,493,420	1,493,420
Financial assets held for sale		-	52,497,253	52,497,253
<b>Total financial Assets</b>	5.98%	<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>
<b>2010</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>				
Cash	4.25%	129,297	-	129,297
Cash short term investments - term deposits	5.71%	76,428,876	-	76,428,876
Cash short term investments - 11am	4.50%	4,781,834	-	4,781,834
Receivables		-	479,757	479,757
Financial assets held for sale		-	47,967,533	47,967,533
<b>Total Financial Assets</b>	5.64%	<u>81,340,007</u>	<u>48,447,290</u>	<u>129,787,297</u>
<b>Financial Liabilities</b>				
Payables		-	1,105,513	1,105,513
<b>Total Financial Liabilities</b>		<u>-</u>	<u>1,105,513</u>	<u>1,105,513</u>
<b>Net Financial Assets</b>		<u>81,340,007</u>	<u>47,341,777</u>	<u>128,681,784</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 2011**

**(b) 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 CBIC 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 Operating Capability**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
1% increase in interest rate	516,873	813,400
1% decrease in interest rate	(516,873)	(813,400)

**(c) Fair Value**

- (i) Financial assets include investments in managed funds which are carried at fair value. 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 fair value has the following levels:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2011</b>				
Financial assets held for sale	15(a)	52,497,253	-	52,497,253
		52,497,253	-	52,497,253
<b>2010</b>				
Financial assets held for sale	15(a)	47,967,533	-	47,967,533
		47,967,533	-	47,967,533

**Notes to and forming part of the Financial Statements  
for the year ended 30 June 2011**

**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	3,256,721	-
Later than 1 year but not later than 5 years	637,450	-
Later than 5 years	-	-
	<u>3,849,171</u>	

**17. SUBSEQUENT EVENTS**

CBIC has entered into two construction contracts subsequent to 30 June 2011 for amounts totalling \$70 million over two years.



## Directors' Declaration

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 25 to 39:
  - (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 2011 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



Mark Brodie  
Chairman



Neil Castles  
Director

Brisbane, 19 October 2010

## 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 2011, 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 2011 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  
19 October 2011

Queensland Audit Office  
Brisbane