

Goodman Logistics (HK) Limited
ARBN 155 911 149
and its subsidiaries
Condensed interim financial report for the half year ended 31 December 2014

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Goodman Logistics (HK) Limited and its subsidiaries
Report of the directors
for the half year ended 31 December 2014

The directors have pleasure in submitting their condensed interim financial report for Goodman Logistics (HK) Limited ("the Company") and its subsidiaries (collectively referred to as the "Consolidated Entity") for the half year ended 31 December 2014 ("half year").

Incorporation and principal place of business

Goodman Logistics (HK) Limited was incorporated in Hong Kong on 18 January 2012 and has its principal place of business at Suite 2008, Three Pacific Place, 1 Queen's Road East, Hong Kong.

On 22 August 2012, the Company became a party to the stapling deed with Goodman Limited ("GL") and Goodman Industrial Trust ("GIT"), and together the three entities and their controlled entities are known as Goodman Group. Goodman Group is listed on the Australian Securities Exchange.

Principal activities

The principal activities of the Consolidated Entity are investment in directly and indirectly held industrial property, fund management, property management services and development management.

Condensed interim financial statements

The results of the Consolidated Entity for the half year ended 31 December 2014 and the state of the Consolidated Entity's affairs at that date are set out in the condensed interim financial statements on pages 4 to 20.

No interim dividends were declared during the half year.

Directors

The directors during the half year and up to the date of this report were:

Gregory Leith Goodman
Philip John Pearce
Ian Douglas Ferrier, AM
Philip Yan Hok Fan

State of affairs

There were no significant changes in the Consolidated Entity's state of affairs during the half year.

Goodman Logistics (HK) Limited and its subsidiaries
Report of the directors
for the half year ended 31 December 2014

Events subsequent to reporting date

In the opinion of the directors, there were no events subsequent to the reporting date, and up to the date of signature of this condensed interim financial report, which would require adjustment to or disclosure in the condensed interim financial report.

By order of the board

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

Ian Douglas Ferrier, AM
Independent Chairman

Sydney, 12 February 2015

A handwritten signature in blue ink, with the first name 'Philip' clearly legible and the last name 'Pearce' written in a cursive style.

Philip John Pearce
Managing Director, Greater China

Goodman Logistics (HK) Limited and its subsidiaries
Consolidated interim statement of financial position
as at 31 December 2014

(expressed in Australian dollars)

		Consolidated	
		31 Dec 2014	30 Jun 2014
	Note	\$M	\$M
Current assets			
Cash		98.9	92.6
Receivables	5	150.9	271.9
Current tax receivables		1.4	0.2
Other assets		2.0	1.6
Total current assets		253.2	366.3
Non-current assets			
Receivables	5	24.0	21.2
Inventories	6(b)	520.6	399.7
Other financial assets	9(ii)	11.9	19.6
Investment properties	6(b)	79.2	87.7
Investments accounted for using the equity method	6(b)	400.7	281.7
Deferred tax assets		0.4	0.7
Plant and equipment		6.6	6.2
Other assets		1.3	0.5
Total non-current assets		1,044.7	817.3
Total assets		1,297.9	1,183.6
Current liabilities			
Payables	7	59.6	82.0
Loans from related parties	14	961.0	885.3
Current tax payables		5.0	16.9
Employee benefits		13.0	16.9
Provisions		0.3	0.5
Total current liabilities		1,038.9	1,001.6
Non-current liabilities			
Payables	7	3.6	4.0
Provisions		2.8	1.3
Total non-current liabilities		6.4	5.3
Total liabilities		1,045.3	1,006.9
Net assets		252.6	176.7
Equity attributable to Shareholders			
Issued share capital	11	626.3	614.6
Reserves	12	(520.0)	(540.3)
Retained earnings	13	137.2	94.2
Total equity attributable to Shareholders		243.5	168.5
Non-controlling interests		9.1	8.2
Total equity		252.6	176.7

The notes on pages 8 to 20 form part of this condensed interim financial report.

Goodman Logistics (HK) Limited and its subsidiaries
Consolidated interim statement of comprehensive income
for the half year ended 31 December 2014

(expressed in Australian dollars)

		Consolidated	
	Note	2014	2013
		\$M	\$M
Revenue			
Gross property income		7.7	7.5
Management income		35.9	29.1
Development income		184.3	135.5
Income from disposal of inventories		47.7	13.6
Distributions from investments		3.9	-
		279.5	185.7
Property and development expenses			
Property expenses		(2.5)	(2.8)
Development expenses		(137.0)	(96.6)
Inventory cost of sales		(41.0)	(12.0)
		(180.5)	(111.4)
Other income/(losses)			
Net loss from fair value adjustments on investment properties	6(d)	(9.4)	-
Share of net results of equity accounted investments	4	16.2	11.2
		6.8	11.2
Other expenses			
Employee expenses		(31.1)	(30.4)
Share based payments expense	4	(4.9)	(3.6)
Administrative and other expenses		(11.2)	(9.3)
Impairment losses	4	(1.1)	(0.4)
		(48.3)	(43.7)
Profit before interest and income tax	4	57.5	41.8
Net finance (expense)/income			
Finance income	8	1.2	1.1
Finance expense	8	(10.8)	(11.8)
Net finance expense		(9.6)	(10.7)
Profit before income tax		47.9	31.1
Income tax expense		(2.4)	(3.1)
Profit for the half year		45.5	28.0
Profit for the half year attributable to:			
Shareholders	13	44.8	26.9
Non-controlling interests		0.7	1.1
Profit for the half year		45.5	28.0
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Increase due to revaluation of other financial assets		0.2	-
Effect of foreign currency translation		16.9	6.6
Other comprehensive income for the half year		17.1	6.6
Total comprehensive income for the half year		62.6	34.6
Total comprehensive income for the half year attributable to:			
Shareholders		61.7	32.9
Non-controlling interests		0.9	1.7
Total comprehensive income for the half year		62.6	34.6

The notes on pages 8 to 20 form part of this condensed interim financial report.

Goodman Logistics (HK) Limited and its subsidiaries
Consolidated interim statement of changes in equity
for the half year ended 31 December 2014

(expressed in Australian dollars)

Half year ended 31 December 2013

Consolidated		Attributable to Shareholders						Non-controlling interests	Total equity
		Issued share capital ¹	Share premium	Reserves	Retained earnings	Total			
	Note	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2013		-	606.1	(548.9)	24.4	81.6	5.9	87.5	
Total comprehensive income for the half year									
Profit for the half year	13	-	-	-	26.9	26.9	1.1	28.0	
Other comprehensive income for the half year		-	-	6.0	-	6.0	0.6	6.6	
Total comprehensive income for the half year, net of income tax		-	-	6.0	26.9	32.9	1.7	34.6	
Transfers		-	-	7.7	(7.7)	-	-	-	
Contributions by and distributions to owners									
- Issue of shares to employees of Goodman Group		-	3.0	-	-	3.0	-	3.0	
- Equity settled share based payments transactions	12(c)	-	-	1.0	-	1.0	-	1.0	
Balance at 31 December 2013		-	609.1	(534.2)	43.6	118.5	7.6	126.1	

1. Amounts less than \$0.1 million.

Half year ended 31 December 2014

Consolidated		Attributable to Shareholders						Non-controlling interests	Total equity
		Share capital	Share premium	Reserves	Retained earnings	Total			
	Note	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2014		614.6	-	(540.3)	94.2	168.5	8.2	176.7	
Total comprehensive income for the half year									
Profit for the half year	13	-	-	-	44.8	44.8	0.7	45.5	
Other comprehensive income for the half year		-	-	16.9	-	16.9	0.2	17.1	
Total comprehensive income for the half year, net of income tax		-	-	16.9	44.8	61.7	0.9	62.6	
Transfers		-	-	1.8	(1.8)	-	-	-	
Contributions by and distributions to owners									
- Issue of shares under Goodman Group's distribution reinvestment plan (DRP)	11	5.6	-	-	-	5.6	-	5.6	
- Issue of shares to employees of Goodman Group	11	6.1	-	-	-	6.1	-	6.1	
- Equity settled share based payments transactions	12(c)	-	-	1.6	-	1.6	-	1.6	
Balance at 31 December 2014		626.3	-	(520.0)	137.2	243.5	9.1	252.6	

The notes on pages 8 to 20 form part of this condensed interim financial report.

Goodman Logistics (HK) Limited and its subsidiaries
Condensed consolidated interim cash flow statement
for the half year ended 31 December 2014

(expressed in Australian dollars)

	Consolidated	
	2014	2013
	\$M	\$M
Cash flows from operating activities		
Property income received	9.6	4.5
Cash receipts from development activities	377.9	288.4
Other cash receipts from services provided	43.1	30.5
Property expenses paid	(1.4)	(1.8)
Payments for development activities	(267.7)	(272.9)
Other cash payments in the course of operations	(50.1)	(41.7)
Dividends/distributions received	7.0	0.4
Finance costs paid	(0.1)	(0.5)
Net income taxes paid	(15.5)	(3.9)
Net cash provided by operating activities	102.8	3.0
Cash flows from investing activities		
Payments for investment properties	(0.3)	(1.3)
Capital return from equity investments	8.9	-
Payments for equity investments	(75.2)	(43.7)
Payments for plant and equipment	(0.9)	-
Net cash used in investing activities	(67.5)	(45.0)
Cash flows from financing activities		
Net payment of loans with related parties	(40.6)	(28.0)
Net cash used in financing activities	(40.6)	(28.0)
Net decrease in cash held	(5.3)	(70.0)
Cash at the beginning of the half year	92.6	219.0
Effect of exchange rate fluctuations on cash held	11.6	9.9
Cash at the end of the half year	98.9	158.9

The notes on pages 8 to 20 form part of this condensed interim financial report.

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

(expressed in Australian dollars)

Basis of preparation

1. Statement of significant accounting policies

(a) Statement of compliance

This condensed interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interests in associates and joint ventures.

As at 31 December 2014, the Consolidated Entity had net current liabilities of \$785.7 million. In accordance with the stapling agreement between the Company, GL and Goodman Funds Management Limited as responsible entity for GIT, on request, each party (and its subsidiaries) must provide financial support to the other party (and its subsidiaries). The financial support to the other party (and its subsidiaries) may include:

- + lending money or providing financial accommodation;
- + guaranteeing any loan or other financing facility including providing any security;
- + entering into any covenant, undertaking, restraint, negative pledge on the obtaining of any financial accommodation or the provision of any guarantee or security in connection with any financial accommodation; and
- + entering into any joint borrowing or joint financial accommodation and providing any guarantee, security, indemnities and undertakings in connection with the relevant joint borrowing or joint financial accommodation.

A party need not do anything under the above arrangements to the extent that the party considers that it is not in the interests of Goodman Group Securityholders as a whole, or would cause a member of the party's group to contravene or breach applicable laws or particular finance arrangements.

On the basis of the above, the condensed interim financial report has been prepared on a going concern basis.

This condensed interim financial report has been prepared in accordance with Hong Kong Accounting Standard, *Interim financial reporting*. The condensed interim financial report is presented in Australian dollars and was authorised for issue by the directors on 12 February 2015.

The condensed interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the annual report of the Consolidated Entity as at and for the year ended 30 June 2014.

The financial information relating to the financial year ended 30 June 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual report for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- + the Company has delivered the financial statements for the year ended 30 June 2014 to the Registrar of Companies in accordance with section 662(3) of, and part 3 of Schedule 6 to, the Companies Ordinance; and
- + the Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not include a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap.32).

Except as described below, the accounting policies applied in the condensed interim financial report are the same as those applied by the Consolidated Entity in the annual report for the year ended 30 June 2014. The following changes in accounting policies are also expected to be reflected in the Consolidated Entity's annual report for the year ending 30 June 2015:

- + Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*;
- + Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*;
- + Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*; and
- + HK(IFRIC) 21, *Leases*.

The Consolidated Entity has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Basis of preparation (cont)

1. Statement of significant accounting policies (cont)

(a) Statement of compliance (cont)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Consolidated Entity's condensed interim financial report as the Consolidated Entity does not qualify to be an investment entity.

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Consolidated Entity's condensed interim financial report as they are consistent with the policies already adopted by the Consolidated Entity.

Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Consolidated Entity's condensed interim financial report as the Consolidated Entity does not adopt hedge accounting.

HK(IFRIC) 21, *Levies*

The interpretation provides guidance on when a liability to pay a levy imposed by the government should be recognised. The interpretation does not have an impact on the Consolidated Entity's condensed interim financial report as it is consistent with the Consolidated Entity's existing accounting policies.

2. Critical accounting estimates used in the preparation of the condensed interim financial report

The preparation of the condensed interim financial report requires estimates and assumptions concerning the application of accounting policies and the future to be made by the Consolidated Entity. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the following notes:

- + Note 6 – Property assets; and
- + Note 9 – Financial instruments.

The accounting impacts of revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Measurement of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Consolidated Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy and have been defined as follows:

- + 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
- + Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- + Note 6 – Property assets; and
- + Note 9 – Financial instruments.

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Results for the half year

3. Segment reporting

The Consolidated Entity is based in Hong Kong and has separately managed divisions in Asia (Greater China and Japan) and Continental Europe. The activities and services undertaken by the divisions include:

- + direct and indirect ownership of investment properties;
- + fund management and property services; and
- + development.

Information about reportable segments

	Asia		Continental Europe		Total	
	2014	2013	2014	2013	2014	2013
	\$M	\$M	\$M	\$M	\$M	\$M
Consolidated statement of comprehensive income						
External revenue						
Gross property income	2.5	1.3	5.2	6.2	7.7	7.5
Management income	17.5	12.8	18.4	16.3	35.9	29.1
Development income	13.0	9.6	171.3	125.9	184.3	135.5
Income from disposal of inventories	-	-	47.7	13.6	47.7	13.6
Distributions from investments	3.9	-	-	-	3.9	-
Total external revenue	36.9	23.7	242.6	162.0	279.5	185.7
Reportable segment profit before income tax¹	30.9	17.4	46.8	33.3	77.7	50.7
Material non-cash items not included in reportable segment profit before income tax						
Net loss from fair value adjustments on investment properties	-	-	(9.4)	-	(9.4)	-
Share of fair value adjustments in equity accounted investments	5.1	7.9	4.6	0.1	9.7	8.0
Impairment losses	-	-	(1.1)	(0.4)	(1.1)	(0.4)

1. Reportable segment profit before income tax comprises profit attributable to Shareholders adjusted for property valuations, impairment losses, other non-cash or non-recurring items and net finance expense.

	Asia		Continental Europe		Total	
	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec	30 Jun
	2014	2014	2014	2014	2014	2014
	\$M	\$M	\$M	\$M	\$M	\$M
Consolidated statement of financial position						
Reportable segment assets	798.5	685.6	458.1	455.3	1,256.6	1,140.9
Investments accounted for using the equity method (included in reportable segment assets)	332.0	225.9	68.7	55.8	400.7	281.7
Total non-current assets	694.3	463.8	350.4	353.5	1,044.7	817.3
Reportable segment liabilities	28.3	43.3	42.9	57.4	71.2	100.7

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Results for the half year (cont)

3. Segment reporting (cont)

Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	2014	2013
	\$M	\$M
Revenue		
Total revenue for reportable segments	279.5	185.7
Consolidated revenue	279.5	185.7
Profit or loss		
Total profit before income tax for reportable segments	77.7	50.7
Other non-cash items not included in reportable segment profit before income tax	(0.8)	7.6
Unallocated amounts: other corporate expenses	(14.5)	(12.9)
Unallocated amounts: share based payments expense	(4.9)	(3.6)
Net finance expense - refer to note 8	(9.6)	(10.7)
Consolidated profit before income tax	47.9	31.1
	31 Dec 2014	30 Jun 2014
	\$M	\$M
Assets		
Total assets for reportable segments	1,256.6	1,140.9
Other unallocated amounts ¹	41.3	42.7
Consolidated total assets	1,297.9	1,183.6
Liabilities		
Total liabilities for reportable segments	71.2	100.7
Other unallocated amounts ¹	974.1	906.2
Consolidated total liabilities	1,045.3	1,006.9

1. Other unallocated amounts comprise principally receivables from and payables to GL and GIT.

4. Profit before interest and income tax

	2014	2013
	\$M	\$M
Profit before interest and income tax has been arrived at after crediting/(charging) the following items:		
Share of net results of equity accounted investments	16.2	11.2
Share based payments expense	(4.9)	(3.6)
Depreciation of plant and equipment	(1.0)	(1.0)
Impairment losses on receivables	(1.1)	(0.4)

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Operating assets and liabilities

5. Receivables

	Consolidated	
	31 Dec 2014	30 Jun 2014
	\$M	\$M
Current		
Trade receivables	9.3	5.7
Other receivables	29.4	53.6
Construction contract receivables	-	60.8
Amounts due from related parties	39.0	109.1
Loans to related parties	73.2	42.7
	150.9	271.9
Non-current		
Loans to related parties	24.0	21.2
	24.0	21.2

6. Property assets

(a) Types of property assets

The Consolidated Entity's investments in property assets include both investment properties (held for capital appreciation and gross property income) and inventories (held for development and sale).

The Consolidated Entity holds both investment properties and inventories either directly or through its investments in joint ventures (JVs).

Investment properties are carried at fair value and inventories are carried at the lower of cost or net realisable value. The calculation of both fair value and net realisable value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of investment properties and inventories (both directly held and in managed funds) are set out in note 6(c).

(b) Summary of the Consolidated Entity's investment in property assets

		Consolidated	
		31 Dec 2014	30 Jun 2014
	Note	\$M	\$M
Directly held property:			
Inventories			
Non-current		520.6	399.7
		520.6	399.7
Investment properties			
Stabilised investment properties	6(d)	31.7	39.6
Investment properties under development	6(d)	47.5	48.1
		79.2	87.7
Property held by managed funds:			
Investments accounted for using the equity method			
JVs	6(e)	400.7	281.7
		400.7	281.7

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Operating assets and liabilities (cont)

6. Property assets (cont)

(c) Estimates and assumptions in determining property carrying values

Inventories

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business.

External valuations are not performed for inventories but instead valuations are determined using the Consolidated Entity's feasibility studies supporting the land and property developments. The end values of the developments in the feasibility studies are based on assumptions such as capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market. Where the feasibility study calculations indicate that the forecast cost of a completed development will exceed the net realisable value, then the inventory is impaired.

Investment properties

(i) Stabilised investment properties

Stabilised investment properties refer to investment properties which are not under development. Stabilised investment properties are carried at their fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts. The current price is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Approach to determination of fair value

The approach to determination of fair value of stabilised investment properties is applied to both properties held directly on the Consolidated Entity's statement of financial position and properties within funds managed by the Consolidated Entity.

Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets and availability of similar properties, vacancy rates, market rents and capitalisation and discount rates. Recent and relevant sales evidence and other market data are taken into account. Valuations are either based on an external, independent valuation or on an internal valuation.

External valuations are undertaken only where market segments are observed to be active. Such a determination is made based on the criteria set out below:

- + function of the asset (distribution/warehouse or suburban office);
- + location of asset (city, suburb or regional area);
- + carrying value of asset (categorised by likely appeal to private investors (including syndicates), or national or institutional investors); and
- + categorisation as primary or secondary based on a combination of location, weighted average lease expiry, quality of tenant covenant (internal assessment based on available market evidence) and age of construction.

Each property asset is assessed and grouped with assets in the same or similar market segments. Information on all relevant recent sales is also analysed using the same criteria to provide a comparative set. Unless three or more sales are observed in an individual market segment (taken together with any comparable market segments as necessary), that market segment is considered inactive.

Where a market segment is observed to be active, then external, independent valuations are performed for stabilised investment properties where there has been more than a 25 basis point movement in capitalisation rates and/or there has been a material change in tenancy profile and/or there has been significant capital expenditure and/or it has been three years since the previous external, independent valuation. For all other stabilised investment properties in an active market segment, an internal valuation is performed based on observable capitalisation rates and referenced to independent market data.

Where a market segment is observed to be inactive, then no external, independent valuations are performed and internal valuations are undertaken based on discounted cash flow (DCF) calculations. The DCF calculations are prepared over a 10 year period. The key inputs considered for each individual calculation are rental growth rates, discount rates, market rental rates and letting up incentives. Discount rates are computed using the 10 year bond rate or equivalent in each jurisdiction plus increments to reflect country risk, tenant credit risk and industry risk. Where possible, the components of the discount rate are benchmarked to available market data.

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
for the half year ended 31 December 2014

Operating assets and liabilities (cont)

6. Property assets (cont)

(c) Estimates and assumptions in determining property carrying values (cont)

(i) Stabilised investment properties (cont)

Market assessment

At 31 December 2014 and 30 June 2014, all markets in which the Consolidated Entity operated were observed to be active and no adjustments were made to the carrying value of stabilised investment properties arising from internal valuations using DCF calculations.

The weighted average capitalisation rates for those properties valued externally at 31 December 2014 and the overall weighted average capitalisation rates for the portfolio (including managed funds) are set out in the table below:

	Total portfolio weighted average capitalisation rate	
	31 Dec 2014	30 Jun 2014
Division	%	%
China	8.5	8.4
Logistics - Continental Europe	7.0	7.2

(ii) Investment properties under development

External valuations are generally not performed for investment properties under development, but instead valuations are determined using the Consolidated Entity's feasibility studies supporting the properties under development. The end values of the developments in the feasibility studies are based on assumptions to determine capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market adjusted for a profit and risk factor. This profit and risk factor is dependent on the function, location and size of the development and is generally in a market range of 3.0% to 15.0%.

(d) Investment properties

	Consolidated	
	2014	2013
	\$M	\$M
Carrying amount at the beginning of the half year	87.7	82.5
Capital expenditure	1.3	1.2
Transfers to inventories	(1.9)	-
Net loss from fair value adjustments	(9.4)	-
Effect of foreign currency translation	1.5	7.9
Carrying amount at the end of the half year	79.2	91.6
Analysed as:		
Stabilised investment properties	31.7	43.2
Investment properties under development	47.5	48.4
	79.2	91.6

Goodman Logistics (HK) Limited and its subsidiaries
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Operating assets and liabilities (cont)

6. Property assets (cont)

(e) Investments accounted for using the equity method

	Consolidated	
	31 Dec 2014	30 Jun 2014
	\$M	\$M
Joint ventures (JVs)	400.7	281.7

Investments in JVs

	Consolidated	
	2014	2013
	\$M	\$M
Movements in carrying amount of investments in JVs		
Carrying amount at the beginning of the half year	281.7	6.0
Share of net results after tax (before revaluations)	6.5	3.2
Share of fair value adjustments on investment properties	9.7	8.0
Share of net results after tax	16.2	11.2
Transfer from investment in an associate	-	20.2
Reclassification of loan to Goodman China Logistics Holding Limited (GCLH) ¹	-	110.6
Share of movements in reserves	0.2	-
Acquisitions	73.9	55.5
Capital return	(1.7)	-
Distributions received and receivable	(3.0)	(0.4)
Effect of foreign currency translation	33.4	8.7
Carrying amount at the end of the half year	400.7	211.8

1. During the prior half year, the directors reviewed the classification of the loan provided to GCLH and determined that it would be more appropriate to include the receivable balance as part of the equity accounted investment in the joint venture.

Further information in relation to the Consolidated Entity's JVs is set out below:

		Consolidated share of JVs result recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2014	2013	31 Dec 2014	30 Jun 2014	31 Dec 2014	30 Jun 2014
Name	Country of establishment/ incorporation	\$M	\$M	%	%	\$M	\$M
Property investment JVs							
GCLH	Cayman Islands	9.5	10.9	20.0	20.0	273.6	179.9
KWASA Goodman Germany (KGG)	Luxembourg	6.7	0.3	30.0	30.0	66.0	50.0
Property development JVs							
Goodman Japan Development Partnership	Japan	-	-	42.5	42.5	58.3	46.0
Other JVs		-	-			2.8	5.8
		16.2	11.2			400.7	281.7

Goodman Logistics (HK) Limited and its subsidiaries
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Operating assets and liabilities (cont)

7. Payables

	Consolidated	
	31 Dec 2014	30 Jun 2014
	\$M	\$M
Current		
Trade payables	14.7	29.1
Other payables and accruals	44.9	52.9
	59.6	82.0
Non-current		
Other payables and accruals	3.6	4.0
	3.6	4.0

Capital management

8. Finance income and expense

	Consolidated	
	2014	2013
	\$M	\$M
Finance income		
Interest income on loans to:		
- Related parties	0.9	0.9
- Other parties	0.1	0.1
Foreign exchange gain	0.2	0.1
	1.2	1.1
Finance expense		
Interest expense on loans from related parties	(25.1)	(21.5)
Other borrowing costs	(0.1)	(0.7)
Capitalised borrowing costs	14.4	10.4
	(10.8)	(11.8)
Net finance expense	(9.6)	(10.7)

9. Financial instruments

Fair value of financial instruments

Investments in unlisted securities are carried at fair value and classified as other financial assets in the statement of financial position.

The Consolidated Entity's other financial instruments are carried at cost or amortised cost. The carrying amount of the Consolidated Entity's financial instruments carried at cost or amortised cost was not materially different from the fair value as at 31 December 2014 and 30 June 2014.

(i) Valuation techniques and significant unobservable inputs

The fair value measurement for investments in unlisted securities has been categorised as a Level 3 fair value. The following table shows the valuation technique used in measuring fair value as well as the significant unobservable inputs used:

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Capital management (cont)

9. Financial instruments (cont)

(i) Valuation techniques and significant unobservable inputs (cont)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity securities • Goodman Japan Limited	Discounted cash flows: The valuation model was determined by discounting the future cash flows generated from continuing operations. The future cash flows were based on fund and development forecasts and then estimating a year five terminal value using a terminal growth rate and an appropriate discount rate.	- Average annual development of 155,000 sqm - Risk adjusted discount rate of 8.0% per annum - Year five terminal value growth rate of nil	The estimated fair value would increase/(decrease) if: - the level of development activity and terminal value growth rate were higher/(lower); or - the risk-adjusted discount rate were lower/(higher).

(ii) Reconciliation of Level 3 fair values

	Consolidated	
	2014	2013
	\$M	\$M
Carrying amount at the beginning of the half year	19.6	16.1
Acquisitions	-	0.3
Capital return	(7.2)	-
Effect of foreign currency translation	(0.5)	(0.4)
Carrying amount at the end of the half year	11.9	16.0

10. Dividends

No dividends were declared or paid to equity shareholders of the Company during the half year.

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Notes to the condensed interim financial report
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Capital management (cont)

11. Share capital

	31 Dec 2014	30 Jun 2014	31 Dec 2014	30 Jun 2014
	Number of shares		\$M	\$M
Share capital	1,745,460,061	1,727,685,976	626.9	615.2
Accumulated issue costs			(0.6)	(0.6)
Total issued capital			626.3	614.6

Details	Share capital	
	Number of shares	\$M
Ordinary shares, issued and fully paid		
1 July 2013	1,713,233,947	- ¹
Shares issued under Goodman Group's DRP	8,943,167	- ¹
Shares issued to employees of Goodman Group ²	5,508,862	- ¹
30 June 2014³	1,727,685,976	615.2
Shares issued under Goodman Group's DRP	8,888,516	5.6
Shares issued to employees of Goodman Group ²	8,885,569	6.1
31 December 2014	1,745,460,061	626.9

1. Amounts less than \$0.1 million.
2. During the half year, the Company issued 8,885,569 (during the half year ended 31 December 2013: 5,508,862) shares to employees of Goodman Group under the Goodman Group Long Term Incentive Plan and Goodman Group Tax Exempt Plan.
3. Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists. Any amount standing to the credit of the share premium account has become part of the Company's share capital.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Goodman Logistics (HK) Limited and its subsidiaries
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Other items

12. Reserves

		Consolidated	
		31 Dec 2014	30 Jun 2014
	Note	\$M	\$M
Asset revaluation reserve	12(a)	9.4	7.4
Foreign currency translation reserve	12(b)	3.9	(12.8)
Employee compensation reserve	12(c)	4.8	3.2
Common control reserve	12(d)	(538.1)	(538.1)
Total reserves		(520.0)	(540.3)

The movements in reserves of the Consolidated Entity are analysed below:

	Consolidated	
	2014	2013
	\$M	\$M
(a) Asset revaluation reserve		
Balance at the beginning of the half year	7.4	(10.5)
Increase due to revaluation of other financial assets	0.2	-
Transfers from retained earnings	1.8	7.7
Balance at the end of the half year	9.4	(2.8)
(b) Foreign currency translation reserve		
Balance at the beginning of the half year	(12.8)	(1.3)
Net exchange differences on conversion of foreign operations	16.7	6.0
Balance at the end of the half year	3.9	4.7
(c) Employee compensation reserve		
Balance at the beginning of the half year	3.2	1.0
Equity settled share based payments transactions	1.6	1.0
Balance at the end of the half year	4.8	2.0
(d) Common control reserve		
Balance at the beginning of the half year	(538.1)	(538.1)
Balance at the end of the half year	(538.1)	(538.1)

13. Retained earnings

	Consolidated	
	2014	2013
	\$M	\$M
Balance at the beginning of the half year	94.2	24.4
Profit for the half year	44.8	26.9
Transfers to asset revaluation reserve	(1.8)	(7.7)
Balance at the end of the half year	137.2	43.6

Goodman Logistics (HK) Limited and its subsidiaries
Notes to the condensed interim financial report
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Other items (cont)

14. Related party transactions

Management and development activities and amounts due from related parties

	Management and development activities		Amounts due from related parties	
	2014	2013	31 Dec 2014	30 Jun 2014
	\$M	\$M	\$M	\$M
JVs				
GCLH	18.2	11.8	-	94.3
KGG	1.0	35.6	-	0.7
	19.2	47.4	-	95.0
Related parties of GL and GIT				
Goodman Hong Kong Logistics Fund	12.3	10.0	4.9	4.5
Goodman Trust Australia	1.1	0.8	-	0.3
Goodman European Logistics Fund	235.1	16.3	34.1	8.4
Goodman Princeton Holdings (Lux) Sàrl	-	72.3	-	0.5
Other related parties	0.4	0.1	-	0.4
	248.9	99.5	39.0	14.1

Financing arrangements with related parties

	Loans to related parties		Loans from related parties		Interest income/(expense) charged on loans to/from related parties	
	31 Dec 2014	30 Jun 2014	31 Dec 2014	30 Jun 2014	2014	2013
	\$M	\$M	\$M	\$M	\$M	\$M
JVs						
Üllő One 2008 Kft	4.7	4.3	-	-	0.1	0.2
Üllő Two 2008 Kft	2.2	2.1	-	-	0.1	0.1
Other JVs	17.1	4.0	-	-	0.1	-
	24.0	10.4	-	-	0.3	0.3
GL, GIT and their controlled entities	41.3	42.7	(961.0)	(885.3)	(25.1)	(21.5)
Related parties of GL and GIT						
Goodman European Logistics Fund	31.9	9.6	-	-	0.6	0.6
Other related parties	-	1.2	-	-	-	-
Related parties of GL and GIT	31.9	10.8	-	-	0.6	0.6

15. Events subsequent to the reporting date

In the opinion of the directors, there were no events subsequent to reporting date, and up to the date of signature of this condensed interim financial report, which would require adjustment to or disclosure in the condensed interim financial report.



**Independent auditor's review report
to the board of directors of Goodman Logistics (HK) Limited**

Review report to the board of directors of Goodman Logistics (HK) Limited.

Introduction

We have reviewed the condensed interim financial report set out on pages 4 to 20 which comprises the consolidated interim statement of financial position of Goodman Logistics (HK) Limited as at 31 December 2014 and the related consolidated interim statements of comprehensive income and changes in equity and the condensed consolidated interim cash flow statement for the half year then ended, and notes to the condensed interim financial report. The directors are responsible for the preparation and presentation of the condensed interim financial report in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

Our responsibility is to form a conclusion, based on our review, on the condensed interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the condensed interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial report as at 31 December 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 February 2015