

CROMWELL PROPERTY GROUP

Appendix 4D – Half-Year Report

For the six months ended 31 December 2010

1. CROMWELL PROPERTY GROUP STRUCTURE

This report is for the Cromwell Property Group, consisting of Cromwell Corporation Limited (ABN 44 001 056 980) ("the Company"), Cromwell Diversified Property Trust (ARSN 102 982 598) ("the Trust") and their respective controlled entities.

Cromwell Property Group was formed in December 2006 by the Stapling of shares in the Company to units in the Trust. Each stapled security consists of one share in the Company and one unit in the Trust, which cannot be dealt with or traded separately.

The responsible entity of the Trust is Cromwell Property Securities Limited (ABN 11 079 147 809) a subsidiary of Cromwell Corporation Limited.

2. REPORTING PERIOD

The financial information contained in this report is for the **six month period ended 31 December 2010**. The previous corresponding period is the six month period ended 31 December 2009. This report should be read in conjunction with Cromwell Property Group's annual report for the year to 30 June 2010 which is available from Cromwell's website at www.cromwell.com.au.

3. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Half-year 31 Dec 2010 \$A'000	Half-year 31 Dec 2009 \$A'000	% Change
Revenue and other income	78,891	78,205	+0.9%
Profit from operations attributable to stapled security holders as assessed by the directors ⁽¹⁾	32,867	33,353	-1.5%
Basic/Diluted operating earnings per stapled security as assessed by the directors ^{(1) (2)}	3.7 cents	4.7 cents	-21.3%
Other items (including fair value adjustments)	(3,951)	(29,119)	-86.4%
Profit after tax attributable to stapled security holders	28,916	4,234	+583%
Basic/Diluted earnings per stapled security ⁽²⁾	3.2 cents	0.6 cents	+433%
Distributions per stapled security	3.5 cents	4.0 cents	-12.5%

(1) Profit from operations is calculated after adjusting for certain items (including fair value adjustments, realised gains on sale and other items) as set out in the commentary below.

(2) Earnings per stapled security calculated using weighted average number of securities on issue during the relevant period.

4. COMMENTARY ON THE RESULTS

(a) Key Items impacting the results were:

- Profit from operations of \$32,867,000 or 3.7cps for the half-year, with \$32,564,000 or 99% being generated from property investment;
- Decrease in the fair value of the Group's investment properties by \$4,706,000 which represents a decrease of 0.4% of the fair value of the investment properties held at June 2010;
- An increase in fair value of the interest rate derivatives of \$4,911,000 primarily due to the effect of increases in underlying short and long-term variable interest rates during the half-year;
- Statutory profit after tax of \$28,916,000, or 3.2cps, compared with a profit of \$4,234,000 in the previous corresponding period;
- Net Tangible Assets of \$0.70 per security down from \$0.71 in June 2010;
- Stapled securities were issued through a placement (72,000,000 securities at \$0.75 each) and rights issue (29,791,000 securities at \$0.72 each) during the half-year; and
- Acquisition of the Qantas Headquarters, one third of the TGA Complex and the Exhibition Street Property during the period.

Revenue analysis

Revenue and other income from operations includes a number of items which in the opinion of the directors are not part of underlying revenue from operations. A reconciliation of revenue from operations as assessed by the directors to revenue and other income as reported in the statutory accounts is as follows:

	Half-year 31 Dec 2010 \$'000	Half-year 31 Dec 2009 \$'000	% Change
<i>Operating revenue</i>			
Rental income and recoverable outgoings	67,848	60,768	+11.7%
Funds management fees	2,866	7,687	-62.7%
Share of operating profits of equity accounted entities	488	3,593	-86.4%
Distributions and interest	3,049	2,662	+14.5%
Other income	1	397	-99.7%
Revenue and other income from operations attributable to stapled securityholders	74,252	75,107	-1.1%
<i>Non-operating revenue (including fair value adjustments)</i>			
Non cash rental income	(434)	(2,537)	-82.9%
Share of non operating profits of equity accounted entities	(177)	(2,537)	-93.0%
Gain on sale of available-for-sale financial assets	-	3,431	-100.0%
Gain on sale of investment properties	6	-	+100.0%
Net gain from fair value adjustments to:			
- Investments at fair value through profit/loss	333	985	-66.2%
- Interest rate derivatives	4,911	3,756	+30.8%
Non operating revenue (including fair value adjustments)	4,639	3,098	+49.7%
Total Revenue and other income	78,891	78,205	+0.9%

Rental income and recoverable outgoings increased by 11.7% over the previous corresponding period, primarily due to additional income in the current half-year from the acquisition of investment properties at 203 Coward Street, Mascot, NSW and the TGA complex.

Funds management income decreased during the period. Funds management income for the corresponding period included fees related to the raising of \$91 million of capital for the Cromwell Riverpark Trust.

Interest income increased during the period compared with the previous corresponding period. This was due to an increase in short term interest rates during the current half-year period relative to the previous corresponding period.

(b) Profit from operations

Reconciliation of operating earnings to statutory profit

The Group delivered a statutory profit after tax attributable to stapled securityholders of \$28,916,000 for the half-year ended 31 December 2010 compared with a profit of \$4,234,000 for the previous corresponding six month period.

The reported net profit for the half-year includes a number of items which, in the opinion of the directors, should be excluded from profit from operations.

A reconciliation of profit from operations as assessed by the directors to the reported profit/(loss) for the half-year is as follows:

	Half-year 31 Dec 2010 \$'000	Half-year 31 Dec 2009 \$'000
Profit from operations as assessed by the directors	32,867	33,353
<i>Reconciliation to profit/(loss) for the half-year:</i>		
Gain /(Loss) on sale of investment properties	6	(586)
Gain on sale of available-for-sale financial assets	-	3,431
Fair value adjustments/write-downs:		
• Investment properties	(4,706)	(25,006)
• Interest rate derivatives	4,911	3,756
• Investments at fair value through profit or loss	333	985
• Property development inventories	(1,770)	(4,331)
Non-cash property investment income/(expenses):		
• Straight-line lease income	1,841	(50)
• Lease incentive and lease cost amortisation	(2,766)	(2,795)
Other non-cash expenses:		
• Amortisation of finance costs	(925)	(955)
• Employee options expense	(174)	(112)
• Amortisation and depreciation	(249)	(249)
• Relating to equity accounted investments ⁽¹⁾	(177)	(2,537)
• Net tax losses utilised ⁽²⁾	(275)	(670)
Net profit/(loss) for the half-year	28,916	4,234
Attributable to:		
Company shareholders	(2,128)	(4,586)
Trust unitholders – minority interest	31,044	8,820
Net profit/(loss) attributable to stapled securityholders	28,916	4,234

(1) Comprises fair value adjustments included in share of profit/(loss) of equity accounted entities.

(2) Tax expense attributable to a change in the value of deferred tax assets as a result of tax losses available to the Group..

Property revaluations

The statutory profit included a decrease in the fair value of the Group's investment properties of \$4,706,000 representing a decrease of 0.4% of the fair value of the investment properties held at June 2010. A total of 13 property assets were externally revalued at December 2010, representing approximately 39.9% of the property portfolio by value (or 52.9% excluding the assets acquired during the half-year). The balance of the portfolio was the subject of internal valuations (determined by the directors to be fair value) having regard to external valuations and comparable sales evidence. The weighted average capitalisation rate (WACR) is now 8.31% across the portfolio, a decrease of 0.30% from June 2010.

Interest rate hedges

The headline result included an increase in fair value of the interest rate derivatives held by the Trust of \$4,911,000, primarily due to the effect of increases in underlying short and long-term variable interest rates during the half-year, compared to June 2010.

Cromwell Property Group had fixed rate interest contracts over 95% of its debt at 31 December 2010, to minimise the risk of unexpected changes in interest rates over time. Accounting standards require Cromwell to account for the value of any fixed rate interest hedges in the balance sheet as an asset or liability and to adjust for any difference in the income statements.

Property development inventories

The Group has entered into development leases in respect of land held by the Cromwell Property Fund. Under the development leases the Group can develop the land on the basis that the Cromwell Property Fund would fully recover its cost. During August 2010, the Cromwell Property Fund sold the largest of its land interests, which in turn triggered a development lease cancellation payment by the Group amounting to \$6,435,000 and the recognition of an additional expense of \$1,770,000 for the Group.

The Group retains minimal exposure to land valued at \$2,500,000 held by Cromwell Property Fund. The Group also holds development inventory valued at \$5,107,000.

(c) Balance Sheet and Capital Management

A comparison of the Group's net asset position and gearing at 31 December 2010 and 30 June 2010 is summarised below:

	31 Dec 2010	31 Jun 2010
Total Assets (\$'000)	1,490,077	1,282,828
Net Assets (\$'000)	641,379	571,407
Net Tangible Assets (NTA) ⁽¹⁾ (\$'000)	640,312	570,120
Stapled Securities Issued (\$'000)	910,986	807,835
NTA per security	\$0.70	\$0.71
Net Debt ⁽²⁾ (\$'000)	764,019	568,117
Gearing ⁽³⁾	53%	48%

(1) Total assets less deferred tax asset and intangible assets

(2) Borrowings less cash and cash equivalents

(3) Net debt divided by Total assets less cash and cash equivalents

Stapled securities on issue have increased by 103,151,000. This is due to a placement of 72,000,000 stapled securities at \$0.75 per security in July 2010, a rights issue resulting in the issue of 29,791,000 stapled securities at \$0.72 per security in August to October 2010 and 1,360,000 stapled securities issued through the reactivation of the distribution re-investment plan (DRP).

NTA per security has decreased by \$0.01 during the half-year.

Net debt has increased due to the additional borrowings of \$142,400,000 relating to the acquisition of the Qantas Headquarters, 321 Exhibition Street and one third of TGA properties during the half-year. Repayments of \$17,293,000 were mostly funded by the sale of an investment property during the half-year.

Debt expiry and loan covenants

As a result of the items above, including the non-cash items, headline gearing has increased to 53% from 48% at 30 June 2010. The increase in gearing has arisen in relation to investment property acquisitions. Look-through gearing, taking into account Cromwell's 18% investment in the Cromwell Property Fund, was also 53%.

The debt facility expiry profile at 31 December 2010 was:

Facility	Maturity Date	Dec 2010 \$'000
Bank loan - TGA	Mar 2011	38,919
Bank loan - Synergy	July 2011	46,800
Bank loan - Mary Street	Aug 2011	47,000
Bank Loan - Syndicate Finance	Nov 2011	415,260
Bank loan - Exhibition St	July 2013	80,000
Bank loan - Mascot	Aug 2013	62,400
Bank loan - Tuggeranong (Tranche 1)	June 2015	107,916
Bank loan - Tuggeranong (Tranche 2)	June 2013	8,302
Total facilities		806,597

Subsequent to balance date the Group has received credit approved terms to refinance its TGA, Synergy and Mary Street facilities and expects to finalise the refinancing of these facilities prior to their expiry.

The Group has also received indicative terms for the refinancing of its Syndicate facility for 3 years, and also expects to complete a refinance of this facility prior to its expiry date.

5. DISTRIBUTIONS AND DIVIDENDS

Interim distributions/dividends declared during the current and previous half-year were as follows:

	Dividend per Security	Distribution per Security	Total per Security	Total \$'000	Franked amt per Security	Record Date	Payment Date
31 Dec 2010							
Interim distribution	-	1.75¢	1.75¢	15,919	-	14/10/10	17/11/10
Interim distribution	-	1.75¢	1.75¢	15,942	-	31/12/10	16/02/11
	-	3.50¢	3.50¢	31,861	-		
31 Dec 2009							
Interim distribution	-	2.00¢	2.00¢	14,062	-	06/10/09	16/11/09
Interim distribution	-	2.00¢	2.00¢	14,244	-	31/12/09	15/02/10
	-	4.00¢	4.00¢	28,306	-		

6. NET TANGIBLE ASSETS PER STAPLED SECURITY

	31 Dec 2010	30 Jun 2010	31 Dec 2009
Net tangible assets per stapled security	\$0.70	\$0.71	\$0.73

7. ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Entity	Ownership Interest		Share of net profits/(losses)	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	%	%	\$'000	\$'000
Cromwell TGA Planned Investment	-	67%	224	774
Cromwell Property Fund	18%	18%	84	278
Phoenix Portfolios Pty Ltd	50%	50%	3	5
			311	1,057

The Group and Trust previously held an investment in a jointly controlled entity, Cromwell TGA Planned Investment ("TGA"). The remaining units of TGA not owned by the Group and Trust were acquired during the half year. This resulted in the Group gaining full control of the TGA. As such it is now fully consolidated and no longer classified as a jointly controlled entity – see part 8 below.

8. ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

On 20 July 2010 the Group and Trust acquired 100% ownership of the Cromwell Property Fund Trust No.2 ("CPF2"), an unlisted trust domiciled in Australia. The primary asset of CPF2 is one third of the units in Cromwell TGA Planned Investment ("TGA"). CPF2 was acquired from Cromwell Property Fund ("CPF"), an associate of the Group.

9. DISTRIBUTION REINVESTMENT PLAN (DRP)

The DRP has been re-activated and 1,360,000 stapled securities were issued under the plan.

10. AUDIT REVIEW REPORT

Cromwell Property Group has a formally constituted Audit & Risk Committee.

The information contained in this report is unaudited. The financial report for the half-year ended 31 December 2010 has been reviewed by the auditors for the Cromwell Property Group.

This Report has been prepared in accordance with AASB Standards (including Australian Interpretations) and standards acceptable to ASX. This Report, and the financial reports upon which the report is based, use the same accounting policies unless otherwise stated in the notes to the financial report.

A copy of the Cromwell Property Group half-year financial report for the 6 months ended 31 December 2010 with the auditors review opinion has been lodged with ASX.



Daryl Wilson
Finance Director
22 February 2011