

3 June 2011

The Manager
Company Announcements Platform
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

RE: CROMWELL GROUP – QUARTERLY UPDATE

Attached is the Cromwell Group Quarterly Update to 31 March 2011 which has been sent to all Securityholders.

Yours faithfully
CROMWELL CORPORATION LIMITED
CROMWELL PROPERTY SECURITIES LIMITED



NICOLE RIETHMULLER
COMPANY SECRETARY

Cromwell Property Group (ASX:CMW)

Comprising Cromwell Corporation Limited ABN 44 001 056 980 and Cromwell Property Securities Limited ABN 11 079 147 809, AFSL 238052
as responsible entity for Cromwell Diversified Property Trust ABN 30 074 537 051 ARSN 102 982 598. Level 19, 200 Mary Street, GPO Box 1093, Brisbane QLD 4001
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CROMWELL CORPORATION LIMITED & CROMWELL DIVERSIFIED PROPERTY TRUST

CROMWELL PROPERTY GROUP



Cromwell Property Group (ASX:CMW) owns an Australian commercial property portfolio valued in excess of \$1.4 billion and has an active property and funds management business. Cromwell is committed to building investor wealth through outstanding performance.

Performance Summary

as at 31 March 2011

Market Capitalisation	\$674.0 m
Current annualised distribution	7.0 cents
Closing Price	\$0.70

Extended lease for Qantas Headquarters

Cromwell has concluded a heads of agreement with Qantas to refurbish their Global Headquarters in Sydney and to extend the lease to 2032.

The flagship asset, located in close proximity to Sydney's Kingsford Smith airport, was acquired in August 2010 for \$143 million and provided additional weighting to the Sydney office market for Cromwell's property portfolio.

The new lease will lift the weighted average lease term of Cromwell's portfolio to more than 7 years. The Qantas HQ asset accounts for nearly 10% of the portfolio by gross rental income.

A competition was initially conducted to select an architect and design for the creation of the new Qantas hub. Internationally renowned firm Architectus were chosen to revitalise

the complex in consultation with project managers, APP Corporation.

The refurbishment will comprise the comprehensive upgrade of existing offices including the creation of additional office space to accommodate all Mascot Campus staff under one roof. When complete, the works will become a new campus, with the four existing

buildings linked by an atrium providing a covered streetscape which will also include meeting areas and break out spaces.

The refurbishment works are expected to commence in the next few months with the final stage of the works scheduled for completion in early 2014.

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ASX Announcements Summary

A complete list of announcements can be found at www.cromwell.com.au

22 March 2011	Cromwell announces a March quarter 2011 distribution of 1.75 cents per stapled security.
04 March 2011	Cromwell announces an institutional placement raised \$35.4 million.
24 February 2011	Cromwell signs a call option with Redefine Australia for up to 35 million Cromwell stapled securities.
22 February 2011	Cromwell announces strong first-half operating earnings of \$32.9 million.
21 February 2011	Cromwell announces the sale of its only WA asset, 78 Mallard Way Cannington, for \$8.6 million.
15 February 2011	Cromwell announces the sale of the Scrivener Building in Canberra for \$9.5 million.
01 February 2011	Cromwell rebranded "Cromwell Property Group".
27 January 2011	Cromwell announces the extension of its on-market buyback for a further 12 months.
24 January 2011	Cromwell advises it suffered no material impact from the Queensland floods.
21 January 2011	Cromwell announces it has leased its Hoppers Crossing Distribution Centre to a Woolworths subsidiary.

New director appointed

Mr Michael Watters was appointed as a non executive director of Cromwell, effective 4 April 2011.

Mr Watters is based in London and has over 25 years' experience in



the investment banking and real estate industries. He is a registered professional engineer with a BSc Eng. (Civil) Degree and an MBA.

Mr Watters has held directorships with some of South Africa's top rated listed property funds including Sycom Property Fund (**JNB:SYC**, www.sycom.co.za) and Hyprop Investments Limited (**JNB:HYP**, www.hyprop.co.za). He is currently the CEO and a Director of Redefine International plc (**LON:CRF**, www.redefineinternational.lje) a listed property investment company which trades on the AIM market of the London Stock Exchange. Redefine International plc is Cromwell's largest securityholder.

Cromwell's chairman Mr Geoff Levy welcomed Mr Watters to the Board.

"Mr Watters' strong background in property and corporate finance will assist him to provide valuable input to Board deliberations", Mr Levy said.

Mr Watters said he was pleased to have the opportunity to join the board of a Group which has demonstrated an ability to consistently outperform over a number of years.

"Cromwell has a history of impressive performance combined with strong risk management and I look forward to working with the Board and senior executive team as we continue to build on those solid foundations," he said.

Mr Watters' appointment brings the total number of Directors from eight to nine. It will also increase the number of Redefine nominated directors to two, in line with the recent increase in their holding in the Group to approximately 22%.

Cromwell to continue consistent strategy

Since the stapling of the Cromwell Property Group in late 2006, the Group has continued to hold a portfolio largely comprised of quality office properties with long leases to blue chip tenants. The internal management model where Cromwell manages the Group's properties in-house, helps to ensure property income is maximised and Cromwell maintains its strong relationship with tenants. In addition, earnings from creating and managing unlisted property funds and selected development opportunities can provide extra income for the Group and can enable the business to grow earnings faster than would be the case for a pure property trust.

When we look at any potential transaction for the Group's portfolio, we evaluate the transaction thoroughly. Some of the key factors considered include the short term impact on operating earnings and net tangible assets (NTA) per security, and the source and cost of funding the transaction. However, these are only some of many different factors we will consider in our assessment.

Over time, Cromwell looks to continually improve the quality of the property portfolio. This has occurred since 2007 by a combination of selling assets which no longer meet returns targets and purchasing additional assets which we believe will deliver above average returns. Cromwell regularly reviews the Group's entire portfolio. In making decisions as to whether to hold or sell assets, Cromwell considers likely risk adjusted returns over the next 5 or more years. Generally this takes into account the most recent independent valuation, but we may assess the current value as being higher or lower, particularly where there has been a significant change in the market, lease terms, tenancy mix or other property factors. The returns the asset has provided in the past are considered, but this will usually have very little bearing on future returns, and is not usually a significant factor in the analysis.

Cromwell recently sold two smaller assets (the Scrivener Building in Canberra, and an industrial property in Perth). In both cases, these asset sales were undertaken because we believed

the risk adjusted future returns will be below what is available elsewhere. The sale of the Perth asset leaves the Group with no exposure to the Western Australian property market, one which we believe will under perform in the medium term.

In undertaking any analysis of whether to buy or sell property, transaction costs are also an important consideration. The costs of buying and selling property are significant, generally around 5-7% of a property's value on acquisition and 1-2% on sale. This acts as a natural barrier to property transactions, as it is imperative that we believe the asset can outperform the market over a long period of time, to justify these costs.

An example of an asset we believe will outperform the market in the long term is the Qantas Headquarters in Sydney. Some of the factors which Cromwell believes made the property an attractive investment include:

- The initial 10 year lease, with annual rental increases linked to the higher of a fixed amount or inflation, which provide reliable cash flows over a long period;



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Approximately 40,000 sqm of existing commercial office accommodation will be refurbished, as well as the conversion of an existing warehouse to create a further 6,900 sqm of additional office space.

A new main entry and reception will create a focal point for the new-look complex and lead through to the atrium, new conference and media centres as well as cafe and meeting spaces.

As part of the refurbishment of the existing offices, an open plan environment will be created to allow maximum flexibility and improved levels of comfort for approximately 3,600 Qantas employees.

This will create further efficiencies for Qantas and allow them to better utilise the space and relocate some employees from other Qantas offices to the upgraded facility.

The upgrade of the building services will include a new air-conditioning plant, increased ventilation rates, high efficiency lighting and water saving devices to provide significant reductions in energy and water consumption.

Under the arrangement, Qantas will enter into a new lease expiring in 2032, with 4 successive options to renew for 5 year periods. The new lease will provide for reviews of the greater of CPI and a fixed amount per annum.

Cromwell will fund the majority of the refurbishment with rents increasing for the additional work.

Cromwell Property Group CEO, Paul Weightman said, "The property presents an opportunity for Cromwell to work cooperatively with the tenant to deliver a facility which will meet their requirements well into the next decade."



◀ Main entry and reception will create a focal point.

- A quality tenant in Qantas, with a corporate credit rating and a strategic reason for occupying the property;
- The purchase price of the property was significantly lower than its replacement cost, meaning the property should remain attractive to tenants in the future when compared to the rentals that a new building would require;
- The potential for an extension of the lease with the tenant, for which we have since agreed terms;
- The availability of cheaper debt funding at the time for assets of this quality, improving the potential returns on equity invested over the medium to long term;
- The exposure to the Sydney Office market, which Cromwell believes will perform very well over the next 3-5 years; and
- The timing of the acquisition was close to the bottom of the property cycle, which provides significant time in which to ride the cycle up and should ensure that any sale

in the future would be in a better environment (the "buy low, sell high" mentality).

There were many other factors which were taken into account in acquiring the asset, but those were some of the key factors which positively influenced the decision.

In addition to individual property assets, Cromwell is also continually assessing other opportunities for the Group, including both large scale property portfolio acquisitions and an expansion of the funds management business. The Group will look at many potential transactions over the course of a year and will generally not disclose any detail until a deal has been agreed. However, in recent times, details of transactions being investigated by Cromwell such as the acquisition of the Centro MCS Syndicates business, or the Group's approach to ING regarding the ING Office Fund have become public knowledge before any transaction has been agreed. Whilst neither transaction ultimately proceeded, we have had a number of questions regarding the transactions

and the reasons why we saw them as attractive.

Cromwell saw the Centro MCS Syndicates business as being complementary to Cromwell's existing funds management activities, adding scale by bringing together Centro's detailed knowledge of their syndicates with Cromwell's stable funds management platform and well respected brand. Cromwell will continue to examine corporate transactions of this type, although there are currently very few quality businesses available in the sector.

Cromwell's approach to ING regarding the ING Office Fund was grounded in a belief that a merger of the two entities would create significant advantages for both sets of securityholders, including the creation of the only internally managed office REIT in Australia, which would clearly be attractive in the current market.

Both transactions were quite different in nature, but we believe both would have added significant value for existing Cromwell securityholders.



The investment opportunity presented by exposure to A-REITs

Author: Stuart Cartledge is the managing director of Phoenix Portfolios - the investment manager of the Cromwell Phoenix Property Securities Fund¹.

Opportunities to acquire good quality assets are rare. Opportunities to acquire a portfolio of good quality property assets are even rarer. However, the opportunity to acquire exposure to a collection of good quality property assets at a discount to their professional independent valuations is available right now. So why aren't investors jumping at this opportunity?

The listed Australian Real Estate Investment Trust (A-REIT) sector (previously known as listed property trusts) has been tarnished by the memory of high gearing, falling asset values and limited availability of debt facilities that came to a head during the global financial crisis.

Centro Property Group is perhaps the most high profile example, with its failure to refinance debt back in December 2007 marking the beginning of a massive slide in prices for the whole sector. Fittingly, with the \$9 billion sale of all of Centro's US assets announced in February, the potential resolution of Centro might just mark the beginning of a recovery in confidence.

But most investors have not realised this yet. They still remember what happened in 2008 and 2009.

For astute investors with a value focus this represents a significant opportunity.

The 2011 half year reporting season confirmed that asset values for quality properties have stopped falling and have begun to rise. Occupancy rates are improving and rental growth is positive.

The average A-REIT currently trades at a 15% discount to the value of the property assets that it owns, or its net tangible asset backing (NTA) and we believe this opportunity to invest in assets at such a significant discount will not last long.

Westfield Retail Trust is a good example of the value that exists today. The Trust holds a share of 54 Australian and New Zealand shopping centres which are more than 99.5% leased. Furthermore, the portfolio is geared below 25%. The Trust pays a healthy distribution yield and growth could come through both rental increases and development of the assets over time. The stock currently trades at a discount to NTA approaching 20%.

This type of opportunity, along with other carefully selected positions in under valued property stocks, can be accessed via the Cromwell Phoenix Property



Highly Recommended

Securities Fund. The Fund's portfolio, compiled based on a "Best Ideas" investment approach, has delivered very strong returns relative to both peers and its benchmark² since inception.

Over the 2 years to 31 December 2010 the Fund returned 20.2% pa and outperformed its benchmark by 15.9% pa³.

This performance has seen the Fund ranked as one of the top performing funds in Australia and the only actively managed A-REIT fund to be awarded a 'Highly Recommended' rating by investment researcher Lonsec⁴.

This achievement is the fruits of a partnership between Cromwell and Phoenix Portfolios dating back to 2008 when we created the Fund.

RECEIVE A FREE QUARTERLY REPORT

Stuart Cartledge publishes a quarterly report on the A-REIT sector for investors in the Cromwell Phoenix Property Securities Fund - a sample of which is enclosed. As a Cromwell securityholder, you can subscribe to receive the report by calling 1800 334 533 or email invest@cromwell.com.au



Registry - Link Market Services

For all enquiries and correspondence regarding your Cromwell Property Group holdings please contact Link Market Services Limited on **1300 550 841** or visit **www.cromwell.com.au/registry**

¹ Stuart Cartledge is employed by a related party of Cromwell Property Securities Limited. Therefore, to the extent he provides any financial product advice in this report, he does so as a representative of Cromwell Property Securities Limited. ² S&P/ASX 300 A-REIT Accumulation Index. ³ Past performance is not necessarily an indication of future performance. ⁴ The Lonsec Limited ("Lonsec") ABN 56 061 751 102 rating (assigned March 2011) presented in this document is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s). It is not a recommendation to purchase, sell or hold the relevant product(s), and you should seek independent financial advice before investing in this product(s). The rating is subject to change without notice and Lonsec assumes no obligation to update this document following publication. Lonsec receives a fee from the fund manager for rating the product(s) using comprehensive and objective criteria.

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