

30 August 2011

Trafalgar Corporate Group Reports \$3.07 million operating profit and an after-tax loss of \$3.04 million

Listed property investment and development group Trafalgar Corporate Group (ASX:TGP), today announced an operating profit (before net impairments and unrealised losses) of \$3.07 million and a net after tax loss of \$3.04 million for the year ended 30 June 2011, after recording net unrealised losses and impairments of \$6.11 million.

Implementation of the orderly asset sales program gained momentum during FY2011 with the following achievements:

- Sale and settlement of the Melbourne Broadcast Centre for \$54.2 million
- Sale and settlement of the Thiess Building, Brisbane for \$63.3 million
- Contracts exchanged for the sale of the Fujitsu Building, Brisbane for \$22.75 million
- Terms were agreed with the Commonwealth Government to lease the vacant space in the Mort Street building, Canberra for an initial 12 month term, with an option to extend for 5 years and 2 months
- Settlement of three Rhodes development superlots (Stages 2, 3 and 5) by the Rhodes Joint Venture (Trafalgar share 50%)
- Contracts were exchanged for one Rhodes development superlot (Stage 6)
- Sale and settlement of the last remaining Pendle Hill, Sydney industrial lot (Trafalgar share 50%)
- Sale and settlement of 5 units in the Nudgee, Brisbane industrial development
- Sale and settlement of 7 industrial land lots at Beverley, Adelaide. In addition, a further 3 lots have been sold and awaiting development approval prior to settlement
- Sale and settlement of 5 suites in the Redmyre Road Strathfield strata commercial office development.

Post FY2011 year end the following has occurred:

- Settlement of the Fujitsu Building occurred in August 2011
- Unconditional contracts have been exchanged on the two remaining Rhodes waterfront development superlots (Stages 7 and 8)

ASX Release

Net revenue from the investment portfolio declined by 32% from \$19.9 million for FY2010, to \$13.5 million for FY2011, reflecting the following:

- Sale of the Melbourne Broadcast Centre in August 2010
- Sale of the Thiess Building in Brisbane in April 2011
- The full year impact of the vacancy in the Goulburn warehouse building

The investment portfolio revenue will continue to decline as buildings are sold and settled.

The operating costs of the Group continue to reduce as the asset realisation program is progressed, with corporate overheads and employment costs reduced by a further 14.4% in FY2011.

‘Significant progress was made during FY2011 in the value maximisation and sale process of the investment properties. In addition, two key milestones were reached in relation to the development assets; firstly, completion of the Rhodes site remediation and subsequent settlement of development lot pre-sales and, secondly, the finalisation of the exit from the Tallwoods golf course and residential estate.

The successful completion of asset sales enabled the Board to declare capital distributions totalling 27 cents per security during FY2011 and a further 20 cents per security was paid on 21 July 2011, taking total capital distributions to security holders to 47 cents per security.’ said Braith Williams, Chief Executive Officer.

The Australian political landscape, natural disasters, especially in Queensland, and global economic uncertainty continued to undermine investor confidence throughout FY2011, particularly in the retail, housing and certain commercial property sectors.

In addition, small business continued to experience difficulty in obtaining funding for property from the major banks, who imposed much stricter conditions on property lending following the global financial crisis.

The outlook for FY2012 is likely to remain cautious as investors come to grips with the impact of the proposed carbon tax and an uncertain global economic environment.

Results summary	FY11	FY10	FY09
Revenue (incl JVs) (\$m)			
Development	0.89	4.53	4.84
Investment	16.36	22.91	24.10
Other	<u>0.33</u>	<u>0.49</u>	<u>0.61</u>
	<u>17.58</u>	<u>27.93</u>	<u>29.55</u>
Operating profit (before impairments and unrealised gains & losses) (\$m)	3.07	8.92	4.89
<u>Unrealised gains or losses (\$m)</u>			
Fair value adjustment of investment properties	(3.89)	(7.51)	(34.30)
Fair value adjustment of financial instruments	1.28	3.09	(9.48)
Impairment of inventory	0.00	0.00	(12.55)
Joint Venture write downs	(1.04)	(1.66)	(4.46)
Loss on disposal of investment properties	(0.03)	0.00	0.00
Impairment of mezzanine debts	(2.43)	(0.20)	(3.92)
Impairment of goodwill	0.00	0.00	(2.72)
Profit/(Loss) before tax (\$m)	(3.04)	2.64	(62.54)
Profit/(Loss) after tax (\$m)	(3.04)	2.64	(62.54)
Basic earnings per security (cents)	(3.6)	3.1	(73.3)
Operating earnings per security (cents)	3.6	10.4	5.7
Distribution per security (cents)	27.0	0.0	5.0
Total assets (\$m)	153.4	279.0	301.9
Net tangible assets per security (\$)	1.24	1.54	1.51
Debt (\$m)	45.8	139.1	161.8
Gearing (%)	29.8	49.9	53.6

The basic loss for the year was 3.6 cents per security and net tangible assets (NTA) as at 30 June 2011 was \$1.24 per security (after distributions of 27 cents per security), compared to \$1.54 per security as at 30 June 2010.

The 30 cents per security decline in NTA in the past financial year was largely attributable to the 27 cents per security distributions made in FY 2011, with the balance attributable to unrealised revaluation losses.

Following the settlement of the Fujitsu building, the directors have confirmed that a further 5 cent per security distribution will be paid in September 2011, as stated in the concurrent distribution announcement.

"It is pleasing to note that as a result of the value maximisation strategy implemented by the Board and management, Trafalgar's security price has improved from a 79.5% discount to NTA as at 30 June 2009, to a 29% discount to NTA as at 30 June 2011. As at 29 August 2011 the security price was trading at a 26% discount to NTA. If the security price as at 30 June 2011 and 29 August 2011 are adjusted for distributions and measured against the pre-distribution NTA of \$1.51, the discounts would have been 23.8% as at 30 June 2011 and 17.9% as at 29 August 2011.

Whilst there is more work to be done, the primary objective of closing the value gap is being achieved” said Trafalgar Chairman, Garry Sladden

In addition to the reduction in investment property income detailed above, the major factors influencing the FY2011 result were:

- Fair value adjustments and impairments resulted in net writedowns of \$6.1 million in FY2011
- Operating costs were reduced by approximately \$0.59 million or 14.4%, compared to FY2010

Capital management continued to be an important focus during FY2011 and management’s initiatives were reflected in the following outcomes:

- Total debt as at 30 June 2011 was \$45.8 million, reduced from \$139.1 million as at 30 June 2010. Group debt gearing decreased from 49.9%, as at 30 June 2010, to 29.8% as at 30 June 2011
- The company had no undrawn committed facilities as at 30 June 2011 as the Group’s operations have no need for any additional debt funding going forward
- The Group had available uncommitted cash funds at balance date of approximately \$21.4 million
- The primary loan facility amounting to \$45.8 million with Westpac has a maturity date of March 2013. The \$5.0 million working capital facility has been cancelled as the Group no longer has a requirement for new debt funding
- The Group no longer has interest rate hedging in place as it intends to repay debt progressively as proceeds from asset sales are received
- Bank debt was reduced from \$45.8 million to \$33.3 million in August 2011, following the completion of the Fujitsu building sale

Investment Portfolio Valuations – the following table profiles the investment portfolio valuations over the past 3 financial years:

	FY2011	FY2010	FY2009
Total Valuation \$m	\$102.9	\$221.6	\$227.0
Weighted Core Capitalisation Rate	9.31%	8.54%	8.47%
Revaluation/(devaluation) \$m	(\$3.9)	(\$7.5)	(\$34.3)

The keys points in relation to the value of the investment portfolio are:

- The decrease in the total value of the investment properties and the increase in the weighted core capitalisation rate largely reflected the sale of the Melbourne Broadcast Centre and the Thiess Building in Brisbane
- The value of individual investment assets performed differently, depending upon the geographic location and tenancy profile

- Properties with vacancies and/or relatively short lease expiry dates were negatively impacted as a result of adverse movements in capitalisation rates (particularly for the Mort Street, Canberra building and the EDI Granville building in Sydney)

Development Property Portfolio Valuations – A loss of \$1.5 million was realised on the sale of the receivable associated with the Tallwoods vendor loan during FY 2011. A further review of the realisation value of the remaining development assets has resulted in a writedown of \$2.0 million reported in FY2011, compared to a \$1 million writedown for the previous corresponding period.

Strategic Objectives

The continued strategic objective is to continue with the orderly realisation of the Group's assets during 2012. Specific objectives involve the following:

- Continue to negotiate with the Australian Tax Office in relation to the renewal of the existing lease for the Hurstville, Sydney building in order to position the building to maximise the sale value
- Continue to negotiate with the Department for Regional Australia in relation to extending their lease in the Mort Street, Canberra building in order to maximise the sale value
- Completion of the Rhodes infrastructure works, which are scheduled to be completed by May 2012
- Settlement of the three remaining Rhodes development lots, which are currently under contract
- Realise other Group assets as opportunities arise
- Continue to reduce bank debt as assets are sold
- Continue to consider distributions to security holders as asset realisation proceeds are received

About Trafalgar

Trafalgar Corporate Group (ASX:TGP) is a property investment and development group. As at 30 June 2011 the Group had total assets of \$153.4 million, including an investment portfolio valued at \$102.9 million across the Brisbane, Sydney, Canberra and Goulburn markets.

At the last reporting date of 30 June 2011, TGP's Net Tangible Assets backing was \$1.24 per security.

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