

CROMWELL PROPERTY GROUP

Appendix 4D – Half-Year Report

For the six months ended 31 December 2011

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 2011**. The previous corresponding period is the six month period ended 31 December 2010. This report should be read in conjunction with Cromwell Property Group's annual report for the year to 30 June 2011 which is available from Cromwell's website at www.cromwell.com.au.

3. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Half-year 31 Dec 2011 \$A'000	Half-year 31 Dec 2010 \$A'000	% Change
Revenue and other income	86,569	78,891	+9.7%
Profit from operations attributable to stapled security holders as assessed by the directors ⁽¹⁾	36,978	32,867	+12.5%
Basic/Diluted operating earnings per stapled security as assessed by the directors ^{(1) (2)}	3.8 cents	3.7 cents	+2.7%
Other items (including fair value adjustments)	(43,759)	(3,951)	+1007.5%
Profit/(loss) after tax attributable to stapled security holders	(6,781)	28,916	N/A
Basic/Diluted earnings/(loss) per stapled security ⁽²⁾	(0.7) cents	3.2 cents	N/A
Distributions per stapled security	3.5 cents	3.5 cents	-

(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. Profit from operations is a non-IFRS measure and has not been audited or reviewed by the Group's auditor.

(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 \$36,978,000 or 3.8cps for the half-year, with \$37,597,000 or 99% being generated from property investment;
- Decrease in the fair value of the Group's investment properties by \$14,225,000 of which \$10,373,000 is attributable to the write-off of transaction costs following the acquisition of the HQ North investment property;
- A decrease in fair value of the interest rate derivatives of \$27,509,000 primarily due to the effect of the interest rate futures market reflecting an expectation of lower short and long-term variable interest rates during the half-year;
- Net Tangible Assets of \$0.68 per security (\$0.71 excluding the value of interest rate hedge liabilities) down from \$0.73 in June 2011 (\$0.72 excluding interest rate hedge liabilities). In addition to the decrease in the market valuation of interest rate swaps NTA was impacted by the write-off of transaction costs incurred in relation to the acquisition of the HQ North investment property;
- A total of 148,324,000 stapled securities were issued during the half-year, at an average issue price of \$0.68, to partly fund the acquisition of HQ North and provide new seed capital for a new managed fund launched in December 2011; and
- Acquisition of the HQ North investment 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 2011 \$'000	Half-year 31 Dec 2010 \$'000	% Change
<i>Operating revenue</i>			
Rental income and recoverable outgoings	81,867	67,848	+20.7%
Funds management fees	2,232	2,866	-22.1%
Share of operating profits of equity accounted entities	403	488	-17.4%
Distributions and interest	2,204	3,049	-27.7%
Other income	9	1	+800.0%
Revenue and other income from operations attributable to stapled securityholders	86,724	74,252	+16.8%
<i>Non-operating revenue (including fair value adjustments)</i>			
Non cash rental income	(379)	(434)	-12.7%
Share of non operating profits of equity accounted entities	334	(177)	N/A
Increase in recoverable amount:			
- Property development inventory	200	-	N/A
Gain on sale of investment properties	-	6	N/A
Net gain from fair value adjustments to:			
- Investments at fair value through profit/loss	-	333	N/A
- Interest rate derivatives	-	4,911	N/A
Non operating revenue (including fair value adjustments)	155	4,639	-96.7%
Total Revenue and other income	86,569	78,891	+9.7%

Rental income and recoverable outgoings of \$81,867,000 increased by \$13,773,000, or 20.7%, on the previous corresponding period. The increase is primarily as a result of rental income generated from the Exhibition Street Property following refurbishment and receipt of Qantas rental income derived for the full six month period (2011: 4 months).

Funds management fees of \$2,232,000 a decrease of \$634,000 or 22.1% on the previous corresponding period mainly due to a reduction in leasing commissions charged in the current half-year.

Interest income decreased during the period compared with the previous corresponding period. This was due to lower average interest rates and cash balances held 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 loss after tax attributable to stapled securityholders of \$6,781,000 for the half-year ended 31 December 2011 compared with a profit of \$28,916,000 for the previous corresponding six month period.

The profit/(loss) for the half-year includes a number of items which, in the opinion of the Directors, need to be adjusted for in order to allow securityholders to gain a better understanding of the Group and Trust's underlying profit from operations. Profit from operations excludes certain items which are non-cash in nature, occur infrequently and/or relate to realised or unrealised changes in the values of assets and liabilities. Profit from operations is a key metric taken into account in determining distributions for the Group and Trust. Profit from operations is a measure which is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been audited or reviewed by the Group and Trust's auditor.

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 2011 \$'000	Half-year 31 Dec 2010 \$'000
Profit from operations as assessed by the directors	36,978	32,867
<i>Reconciliation to profit/(loss) for the half-year:</i>		
Gain /(Loss) on sale of investment properties	-	6
Fair value adjustments/write-downs:		
• Investment properties	(14,225)	(4,706)
• Interest rate derivatives	(27,509)	4,911
• Investments at fair value through profit or loss	(170)	333
• Property development inventories	200	(1,770)
Non-cash property investment income/(expenses):		
• Straight-line lease income	4,200	1,841
• Lease incentive and lease cost amortisation	(4,578)	(2,766)
Other non-cash expenses:		
• Amortisation of finance costs	(1,095)	(925)
• Employee options expense	(323)	(174)
• Amortisation and depreciation	(257)	(249)
• Relating to equity accounted investments ⁽¹⁾	334	(177)
• Net tax losses utilised ⁽²⁾	(336)	(275)
Net profit/(loss) for the half-year	(6,871)	28,916
Attributable to:		
Company shareholders	(676)	(2,128)
Trust unitholders – minority interest	(6,105)	31,044
Net profit/(loss) attributable to stapled securityholders	(6,871)	28,916

(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 loss included a decrease in the fair value of the Group's investment properties of \$14,225,000 representing a decrease of 1.0% of the fair value of the investment properties held at June 2011. The decrease in the fair value for the current period was primarily due to non-cash items and the effective write-off of stamp duty and other transaction costs associated with the acquisition of the HQ North investment property.

The fair value adjustment can be apportioned as follows:

	Half-year 31 Dec 2011 \$'000	Half-year 31 Dec 2010 \$'000
Write-off of transaction costs	(10,373)	(13,253)
Non-cash adjustments for straight-lining of rentals and lease amortisation	378	(925)
Increase/(decrease) in valuations, net of property improvements, lease costs and incentives	(4,230)	9,472
Gain/(loss) on fair value of investment properties	(14,225)	(4,706)

The net decrease in valuations, of \$4,230,000 represents a reduction of approximately 0.3% from June 2011 book value.

A total of 13 property assets were externally revalued at December 2011, representing approximately 49% of the property portfolio by value (or 55% 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 8.16% across the portfolio, compared with 8.18% at June 2011.

Interest rate hedges

Cromwell Property Group had fixed rate interest contracts over 93% of its debt at 31 December 2011, 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.

The headline result included an decrease in fair value of the interest rate derivatives held by the Trust of \$27,509,000, primarily due to the effect of decreases in underlying short and long-term variable interest rates during the half-year, compared to June 2011.

(c) Earnings and Distributions per Security

	Half-year 31 Dec 2011 \$'000	Half-year 31 Dec 2010 \$'000
Profit/(loss) per security	(0.7)	3.2
Profit from operations per security	3.8	3.7
Distributions per security	3.5	3.5

Profit from operations on a per security basis is considered by the Directors to be the key measure of underlying financial performance as it excludes certain volatile and non-cash items but includes the impact of changes in the number of securities on issue.

Profit from operations attributable to stapled securityholders of \$36,978,000 (2010: \$32,867,000) equated to 3.8 cents (December 2010: 3.7 cents) per weighted average stapled security. This represents an increase of approximately 3% which is considered an acceptable result given the somewhat difficult market environment over the period.

Distributions per stapled security for the half-year were 3.5 cents (December 2010: 3.5 cents).

Distributions for the current half-year comprised a September quarterly distribution of 1.75 cents paid on 16 November 2011 (2010: 1.75 cents paid on 17 November 2010), and a December quarterly distribution of 1.75 cents paid on 15 February 2012 (2010: 1.75 cents paid on 16 February 2011).

(d) Balance Sheet and Capital Management

A comparison of the Group's net asset position and gearing at 31 December 2011 and 30 June 2011 is summarised below:

	31 Dec 2011	30 June 2011
Total Assets (\$'000)	1,757,990	1,539,428
Net Assets (\$'000)	761,697	705,160
Net Tangible Assets (NTA) ⁽¹⁾ (\$'000)	760,424	703,636
Stapled Securities Issued (\$'000)	1,113,061	964,737
NTA per security	\$0.68	\$0.73
NTA per security (excluding interest rate hedges)	\$0.71	\$0.73
Net Debt ⁽²⁾ (\$'000)	874,591	737,037
Gearing ⁽³⁾	51%	49%

(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 148,324,000. This is due to a placement of 86,180,000 stapled securities at \$0.68 per security in November to December 2011, an entitlement offer resulting in the issue of 57,317,000 stapled securities at \$0.68 per security in December 2011, 660,000 stapled securities at \$0.20 per security were issued in December 2011 through exercise of options granted under the Performance Rights Plan and 4,167,000 stapled securities issued through the distribution re-investment plan (DRP).

Net debt has increased due to the additional borrowings of \$122,190,000 relating to the acquisition of the HQ North, 540 Wickham Street Terrace, Fortitude Valley, QLD property and the first draw-down on the facility for the construction of the Qantas Headquarters during the half-year. Repayments of \$1,660,000 were mostly funded by operational activities during the half-year.

NTA per security excluding the impact of interest rate hedges, which will have zero value at the end of the term of each hedge, was \$0.71 compared with \$0.73 at June 2011. This reflects the write-off of transaction costs in relation to the HQ North property, with no material change in the net value of other assets and liabilities. The NTA does not take into account any value for the Group's funds management business, which is expected to grow substantially over the medium term.

Debt expiry and loan covenants

As a result of the items above, including the non-cash items, headline gearing has increased to 51% from 49% at 30 June 2011. The increase in gearing has arisen in relation to investment property acquisitions.

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 2011							
Interim distribution	-	1.75¢	1.75¢	16,920	-	04/10/11	16/11/11
Interim distribution	-	1.75¢	1.75¢	17,530	-	30/12/11	15/02/12
	-	3.50¢	3.50¢	34,450	-		
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	-		

6. ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Entity	Ownership Interest		Share of net profits/(losses)	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	%	%	\$'000	\$'000
Cromwell TGA Planned Investment	-	-	-	225
Cromwell Property Fund	18%	18%	746	84
Phoenix Portfolios Pty Ltd	50%	50%	(9)	2
			737	311

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 in July 2010. 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.

7. DISTRIBUTION REINVESTMENT PLAN (DRP)

A distribution reinvestment plan is in operation and 4,167,000 stapled securities were issued under the plan during the period.

8. 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 2011 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 2011 with the auditors review opinion has been lodged with ASX.



Daryl Wilson
Finance Director
27 February 2012