

16 August 2012

Trafalgar Corporate Group Reports \$3.65 million operating profit and an after-tax profit of \$1.47 million

Listed property investment and development group Trafalgar Corporate Group (ASX:TGP), today announced an operating profit (before net impairments and unrealised losses) of \$3.65 million and a net after tax profit of \$1.47 million for the year ended 30 June 2012, after recording net unrealised losses and impairments of \$2.18 million.

The key achievements for FY2012 were as follows:

- Settlement of the Fujitsu Building, Brisbane sale for \$22.75 million
- Settlement of three Rhodes development superlots (Stages 6, 7 and 8) by the Rhodes Joint Venture (Trafalgar share 50%)
- The Group received \$19.5 million in distributions from the Rhodes Joint Venture during FY2012
- Civil works infrastructure for the Rhodes project was completed during FY2012, with only landscaping works outstanding at year-end
- Sale and settlement of remaining 3 suites in the Redmyre Road Strathfield strata commercial office development. This project is now complete
- The Group made a further \$44.4 million (52 cents per security) in capital distributions to security holders during FY2012

Progress of the orderly asset realisation program was somewhat slower in FY2012, compared to FY2011, largely as a result of delays in finalising lease negotiations for the commercial office buildings in Sydney and Canberra.

Post FY2012 year end, the following has occurred:

- A heads of agreement has been entered into with a purchaser for the sale of the Granville, Sydney building, subject to obtaining development approval for its intended use
- Contracts have exchanged for the sale of one unit in the Nudgee industrial unit development leaving 5 units left to sell

Net revenue from the investment portfolio declined by 34% from \$13.5 million for FY2011, to \$8.9 million for FY2012, as a result of the following:

- Full year sale of the Thiess Building in Brisbane
- Sale of the Fujitsu Building in Brisbane in August 2011

ASX Release

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

The operating costs of the Group continued to decline, with corporate overheads and employment costs reduced by a further 14% in FY2012, following a 14.4% decline in FY2011. Operating costs in FY2013 are expected to fall by 25% to 30%.

'Settlement of the Fujitsu Building and completion of the Rhodes development superlot sales during FY2012 provided the Group with major cash injections, which enabled the Board to declare further capital distributions to security holders.

The Board was in a position to declare capital distributions totalling 52 cents per security during FY2012, taking total capital distributions to security holders since May 2011 to 79 cents per security.' said Braith Williams, Chief Executive Officer.

Results summary	FY12	FY11	FY10
Revenue (incl JVs) (\$m)			
Development	0.11	0.89	4.53
Investment	11.14	16.36	22.91
Other	0.41	0.33	0.49
	<u>11.66</u>	<u>17.58</u>	<u>27.93</u>
Operating profit (before impairments and unrealised gains & losses) (\$m)	3.65	3.07	8.92
<i>Unrealised gains or losses (\$m)</i>			
Fair value adjustment of investment properties	(2.38)	(3.89)	(7.51)
Fair value adjustment of financial instruments	0.00	1.28	3.09
Joint Venture (write downs)/write-backs	1.52	(1.04)	(1.66)
Loss on disposal of investment properties	(0.00)	(0.03)	0.00
Impairment of mezzanine debts	(1.32)	(2.43)	(0.20)
Profit/(Loss) before tax (\$m)	1.47	(3.04)	2.64
Profit/(Loss) after tax (\$m)	1.47	(3.04)	2.64
Basic earnings per security (cents)	1.7	(3.6)	3.1
Operating earnings per security (cents)	4.3	3.6	10.4
Distribution per security (cents)	52.0	27.0	0.0
Total assets (\$m)	97.4	153.4	279.0
Net tangible assets per security (\$)	0.73	1.24	1.54
Debt (\$m)	32.6	45.8	139.1
Debt Gearing (%)	33.4	29.8	49.9

The basic earnings for the year was 1.7 cents per security (3.6 cents loss in FY2011) and net tangible assets (NTA), as at 30 June 2012, was \$0.73 per security (after distributions of 52 cents per security), compared to \$1.24 per security as at 30 June 2011.

The 51 cents per security decline in NTA in the past financial year was attributable to the capital distributions paid to security holders during FY2012, net of FY2012 profit.

“It is pleasing to report that a total of 52 cents per security in capital distributions were paid to security holders during FY2012, almost double the distributions paid in FY2011.

Work continues on leasing arrangements for the ATO building in Hurstville and the Mort Street, Canberra building and the Board and management remain committed to achieving the best possible outcome for security holders” said Trafalgar Chairman, John Green.

In addition to the reduction in investment property income, detailed above, the major factors influencing the FY2012 result were:

- Fair value adjustments and impairments resulted in a net writedown of \$2.2 million in FY2012, substantially lower than the \$6.1 million writedown in FY2011
- Operating costs were reduced by approximately \$0.5 million or 14.0%, compared to FY2011

Capital management continued to be an important focus during FY2012 and management’s initiatives were reflected in the following outcomes:

- Total debt as at 30 June 2012 was \$32.6 million, reduced from \$45.8 million as at 30 June 2011. Group debt gearing increased from 29.8%, as at 30 June 2011, to 33.4% as at 30 June 2012
- The company had no undrawn committed facilities as at 30 June 2012, 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 \$5.2 million
- The primary loan facility, amounting to \$32.6 million with Westpac, has a maturity date of March 2014. The Group has agreed to a principal repayment program of \$750,000 per quarter.
- The Group no longer has interest rate hedging in place as it intends to repay debt progressively as proceeds from asset sales are received

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

	FY2012	FY2011	FY2010
Total Valuation \$m	\$78.6	\$102.9	\$221.6
Weighted Core Capitalisation Rate	9.59%	9.31%	8.54%
Revaluation/(devaluation) \$m	(\$2.4)	(\$3.9)	(\$7.5)

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 Fujitsu Building in Brisbane.

- The weighted average lease expiry has reduced from 3.54 years, as at 30 June 2011, to 2.25 years as at 30 June 2012, partially reflecting the impact of the sale of the Fujitsu Building, but more particularly a further year has passed without new leases being put in place for the ATO and Mort Street buildings.

Development Property Portfolio Valuations – The Group recorded a \$1.5 million write-back of its investment in the Rhodes project as a result of better than expected sales results and strict cost control around project completion costs. A further review of the realisation value of the remaining development assets has resulted in a writedown of \$1.3 million in the year under review, compared to a \$2.4 million writedown for the previous corresponding period. The net result was a \$0.2 million improvement in the carrying value of the development property portfolio as at 30 June 2012.

Strategic Objectives

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

- Finalise negotiations with the Australian Tax Office in relation to the renewal of the existing lease for the Hurstville, Sydney building, which expires in February 2015, in order to position the building to maximise the sale value
- Procure a new tenant for the vacant office space in the Mort Street, Canberra building, in order to position the building to maximise its realisation value
- Complete the sale of the Granville and Goulburn Buildings
- Complete the exit from the residual development projects

About Trafalgar

Trafalgar Corporate Group (ASX:TGP) is a property investment and development group. As at 30 June 2012 the Group had total assets of \$97.4 million, including an investment portfolio valued at \$78.6 million in the Sydney, Canberra and Goulburn markets.

At the last reporting date of 30 June 2012, TGP's Net Tangible Assets backing was \$0.73 per security.

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