

A photograph of two men in dark suits, light blue shirts, and yellow patterned ties standing in a modern office building. They are positioned in front of large glass windows that offer a view of a city skyline. The man on the right is smiling and looking towards the camera, while the man on the left is looking slightly to his right. The background shows architectural details like a staircase and structural beams.

Cromwell

CROMWELL GROUP  
ANNUAL  
REPORT 2010

**REFLECTING  
ON THE YEAR  
LOOKING TO  
THE FUTURE**

REFLECTING  
ON THE YEAR  
LOOKING TO  
THE FUTURE

# INSIDE

## CROMWELL GROUP ANNUAL REPORT 2010

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### Group Overview

Cromwell Group is an internally managed REIT with an Australian property portfolio valued in excess of \$1.3 billion and a funds management business that promotes and manages unlisted property investments.

Cromwell's income is underpinned by a focus on quality income producing office properties with strong tenant covenants. We aim for 4% annual growth in 'like for like' property income.

Cromwell's Australian property focus enables it to provide a full suite of property related services including deal sourcing, due diligence, property management, leasing and asset enhancement.

Cromwell internally manages all of its properties to ensure buildings operate efficiently, projects are delivered on time and on budget, and tenants are managed professionally.

### This document is issued by

Cromwell Group consisting of

Cromwell Corporation Limited ABN 44 001 056 980  
and Cromwell Property Securities Limited AFS 238052  
ABN 11 079 147 809 as responsible entity for  
Cromwell Diversified Property Trust ARSN 102 982 598  
ABN 30 074 537 051 ("DPT")

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Email: [invest@cromwell.com.au](mailto:invest@cromwell.com.au)

### Securityholder Enquiries

All enquiries and correspondence regarding securityholdings should be directed to Cromwell's registry provider:

#### Link Market Services Limited

Level 15, 324 Queen Street  
Brisbane QLD 4000 AUSTRALIA

Phone: 1300 550 841

Outside Australia: +61 2 8280 7124

Fax: +61 2 9287 0303

Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Email: [cmw@linkmarketservices.com.au](mailto:cmw@linkmarketservices.com.au)

### Current unlisted investment funds\*

Cromwell Property Fund ARSN 119 080 410 ("CPF")

Cromwell Phoenix Property Securities Fund ARSN 129 580 267 ("PSF")

Cromwell Riverpark Trust ARSN 135 002 336 ("CRT")

This Annual Report forms part of Cromwell Group's 2010 annual reporting suite. The Annual Update and Sustainability Report can be downloaded from [www.cromwell.com.au](http://www.cromwell.com.au) or by calling 1800 334 533.



\* Units in the DPT, CPF, PSF and CRT are issued by Cromwell Property Securities Limited. The CPF and CRT are closed to new investments. An investment in the PSF can only be made on an application form accompanying the Product Disclosure Statement dated 1 July 2009 ("PDS"). Investors should consider the PDS when making a decision about whether to acquire, or continue to hold, units in the PSF. The PDS is available from [www.cromwell.com.au](http://www.cromwell.com.au) or by calling 1800 334 533.

This document has been prepared without taking into account your objectives, financial situation or needs. Therefore, in deciding whether to acquire or continue to hold an investment, you should consider the relevant offer document available from us and assess, with or without your financial advisor, whether the product fits your objectives, financial situation or needs. Past performance is not indicative of future performance. Certain statements in this document are also forward-looking and are not guarantees of future performance. Actual results could differ materially from those expressed.

# Chairman's Review

## Chairman's Review



The 2010 financial year has been a time of reflection and refocus for Cromwell – reflecting on the challenges of the past few years and refocusing on the core strengths of the Group to allow us to navigate a successful path for the future.

Once again the year has been a difficult one for the property sector and despite the gradual improvement evident in the broader economy, rental markets and property valuations remained subdued for much of the year. However, over the past few months we have begun to see some positive signs in the property sector, with improving fundamentals in some office markets, including Melbourne where Cromwell has a strong weighting.

This year the Group earned \$64.6 million, or 8.5 cents per security, made up almost entirely of recurring income from our property assets. This stability of earnings was possible in the current environment because of the quality of our portfolio and, in particular, our office properties, which have continued to generate reliable earnings. The Group's full year distributions of 8.0 cps were in line with guidance. Cromwell has retained operating earnings and distributions throughout the cycle at high levels relative to other A-REIT's, although we have not entirely escaped the impact of moderating rents and higher interest rates.

Cromwell has always had a long term focus on delivering superior performance to securityholders throughout the property cycle and in this regard we have continued to outperform our peers. We have not been afraid to differentiate ourselves from the pack, selling properties valued at \$273 million at the height of the market in 2007 and beginning to acquire quality assets from mid 2008 onwards. 2010 has seen a continuation of our property acquisitions programme whilst at the same time the Group has divested some smaller assets which we believe will deliver below average returns over the medium term.

Cromwell avoided the need to raise funds through the worst of the market, contrary to many of our peers who significantly diluted securityholder wealth through discounted capital raisings. Instead, in December 2009 Cromwell introduced Redefine Australia as a long-term cornerstone securityholder, raising \$73 million at a minimal discount to then current trading price and above our most recent NTA per security.

Redefine was attracted to Cromwell due to the strong defensive nature of our property portfolio, coupled with our demonstrated ability to add value through internalised property expertise and our disciplined acquisition strategy.

The strategic alliance with Redefine is a key part of Cromwell's growth strategy. This investment by Redefine has already allowed us to make acquisitions that we believe will be of long-term value to the Group.

Since the end of the financial year the Group has raised over \$70 million through a further Placement and Rights Issue, again on terms that were non-dilutive to existing investors. I would like to thank all of those investors who demonstrated their support for the Group by taking up their entitlements in our Rights Issue.

In another step forward, Cromwell will this year publish its second Sustainability Report, using the Global Reporting Initiative G3 guidelines as the framework for reporting on the Group's environmental, economic and social performance. The adoption of a systematic report on these activities gives the Group another avenue to demonstrate our sustainability commitment to the market.

I would like to thank the management and staff of Cromwell for their hard work through the year and congratulate them on the Group's positive achievements. I would also like to thank my fellow board members for their valuable contribution and to welcome new board member Marc Wainer from Redefine.

Finally, I would like to thank all of our investors for their ongoing support and look forward to sharing in the fruits of an improving market.

A handwritten signature in blue ink, appearing to read 'Geoffrey H Levy, AO'. The signature is fluid and stylized.

**Geoffrey H Levy, AO**  
Chairman

# Performance Highlights

## Performance Highlights

### Operating Earnings

- Full year operating earnings of \$64.6m or 8.5 cents per security
- Result underpinned by \$65.5m net contribution from property investment
- Growth in like-for-like property income of 6.0%

### Financial Position

- NTA of \$0.71 per security
- Security price of \$0.725 on 31 August 2010 represents approximately 10% yield on distribution guidance for the 2011 financial year of 7.0-7.4 cps

### Statutory Profit

- Statutory profit of \$19.1m or 2.5 cps
- Negatively impacted by property revaluations

Results Summary	FY09	FY10	Change	
Statutory accounting profit/(loss) (\$'000)	(113,511)	19,053		
Operating earnings (\$'000)	63,761	64,630	▲	1%
Operating EPS (cents)	9.1	8.5	▼	7%
Distributions (\$'000)	63,278	60,619	▼	4%
Distributions per security (cents)	9.0	8.0	▼	11%
Payout Ratio (%)	99%	94%	▼	5%
Net Tangible Assets (\$'000)	537,357	570,120	▲	6%
Securities on Issue (\$'000)	702,943	807,835	▲	15%
NTA per security (\$)	\$0.76	\$0.71	▼	7%
Gearing <sup>(1)</sup> (%)	53%	48%	▼	5%
Look-through gearing (%)	55%	50%	▼	5%

(1) Calculated as (total borrowing less cash)/(total assets less cash)

Statutory Profit/Loss	FY09 (\$'000)	FY09 EPS	FY10 (\$'000)	FY10 EPS	Change
Operating earnings	63,761	9.1	64,630	8.5	▲ 1%
<i>Adjustments</i>					
Fair value – investment properties	(104,288)	(14.9)	(32,146)	(4.2)	▼ 69%
Fair value – interest rate derivatives	(22,479)	(3.2)	(1,283)	(0.2)	▼ 94%
Fair value – equity accounted investments	(20,237)	(2.9)	(2,643)	(0.3)	▼ 87%
Write-downs – development inventory	(11,463)	(1.6)	(6,331)	(0.9)	▼ 45%
Other items	(18,805)	(2.7)	(3,174)	(0.4)	▼ 83%
<b>Net Profit (Loss) after tax</b>	<b>(113,511)</b>	<b>(16.2)</b>	<b>19,053</b>	<b>2.5</b>	

Composition of Earnings	FY09 (\$'000)	FY09 EPS	FY10 (\$'000)	FY10 EPS	Change
Property Investment	63,236	9.0	65,482	8.6	▲ 4%
Funds Management	3,183	0.5	2,920	0.4	▼ 8%
Property Development	(2,658)	(0.4)	(3,772)	(0.5)	▼ 42%
<b>Operating Profit</b>	<b>63,761</b>	<b>9.1</b>	<b>64,630</b>	<b>8.5</b>	<b>▲ 1%</b>

## Capital Management

- All debt in Australian dollars, spread amongst major Australian banks
- Have commenced discussions on FY11 and FY12 debt expiries
- Proforma 30 June 2010 gearing of 53% within target range

## Earnings Guidance FY11

- Expect operating earnings of 7.3 – 7.8 cps
- Distributions of 7.0 – 7.4 cps forecast in line with policy of distributing 90-95% of operating earnings
- High level of tax deferral expected to continue

## Outlook

- Expect FY11 to be low point in earnings cycle
- Continue to focus internally on re-leasing and portfolio improvement opportunities
- Focus on opportunities which protect or enhance earnings per security and NTA per security

## Major ASX Announcements

9 JULY 2009

### Riverpark Settlement

Announces the Cromwell Riverpark Trust has settled acquisition of land at 33 Breakfast Creek Road in Newstead, Brisbane.

24 DECEMBER 2009

### Redefine Placement

Cromwell announces it has completed a placement of stapled securities to Redefine Australia of approximately \$73.3 million.

23 DECEMBER 2009

### \$91 million raised for Riverpark Trust

Cromwell announces it has closed applications for Riverpark Trust fully subscribed, successfully raising \$91 million.

2 FEBRUARY 2010

### Director Appointment

Cromwell announces it has appointed Marc Wainer as a director of the Group.

18 FEBRUARY 2010

### Strong first half

Cromwell announces it is on track to achieve full year earnings of 8.5 cps, with total distributions of 8.0 cps, after reporting a strong first half underpinned by recurring income from the Group's investment property portfolio.

6 APRIL 2010

### Strategic review of unlisted fund

Cromwell announces strategic review of Cromwell Property Fund and potential acquisition of 321 Exhibition Street, Melbourne and TGA Complex at Symonston, ACT.

25 MAY 2010

### Interest rate hedging extended

Cromwell announces it has extended its interest rate hedging so it is now 92 per cent hedged for FY11.

10 JUNE 2010

### Qantas HQ due diligence

Cromwell announces it is undertaking due diligence on Qantas Headquarters in Mascot, Sydney. (Cromwell acquired the asset on 20 August 2010.)

## Outperformance

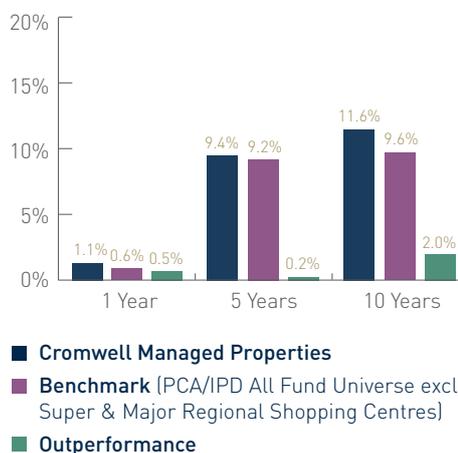
### Total Securityholder Return

(to 30 June 2010)



### Direct Property Outperformance

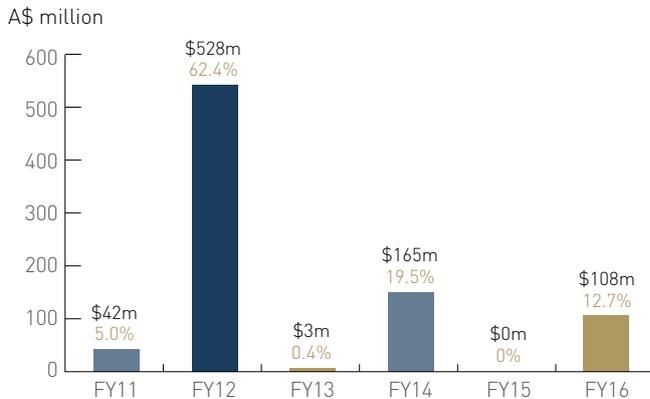
(to 31 March 2010)



# Performance Highlights

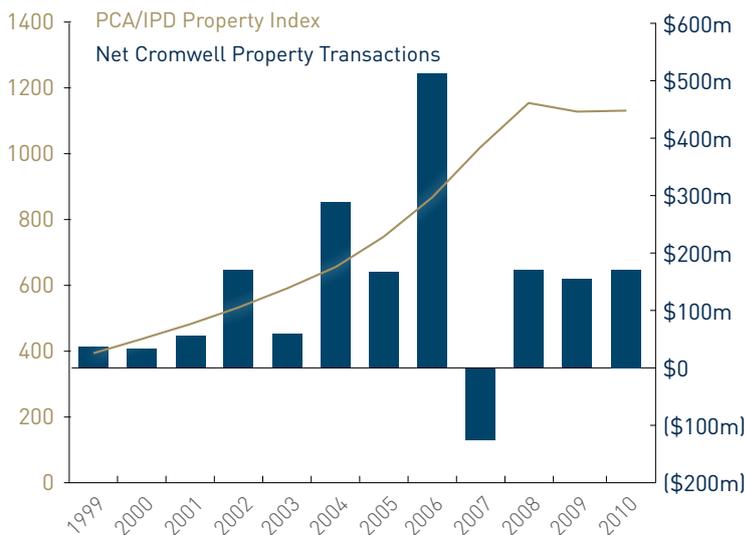
## Performance Highlights

### Debt Facility Expiry Profile



The Group has no debt expiries until March 2011 with negotiations on this facility and others expiring later in 2011 already having commenced. Cromwell expects to be in a position to extend or refinance these facilities well ahead of their due dates. All debt facilities are with Australian banks, with 92% of interest costs hedged for the 2011 financial year.

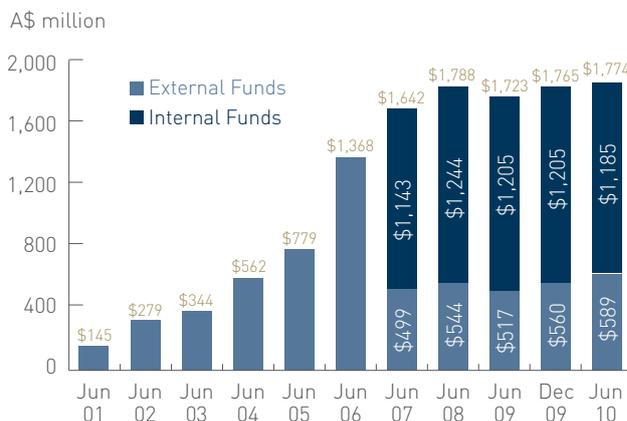
### Transactions vs. PCA/IPD Property Index



Cromwell actively manages the Group's portfolio, realising profits while the market is strong and acquiring assets at opportune times.

The Group sold \$260 million of assets in 2007 at the height of the market and has acquired \$482 million since the global financial crisis began.

### Gross Assets under Management



Despite very challenging market conditions, in December 2009 Cromwell successfully completed a \$91 million capital raising for the Cromwell Riverpark Trust, the largest retail unlisted property raising in Australia for two years.

The Group's gross assets under management have remained fairly stable throughout the global financial crisis despite falls in underlying asset values.

Cromwell delivers over 95% of earnings from its property portfolio, which is underpinned by a focus on quality Australian assets with strong tenant covenants.

## Portfolio Statistics

Cromwell's philosophy is to actively manage all property assets internally. This is one of the Group's key competitive advantages.

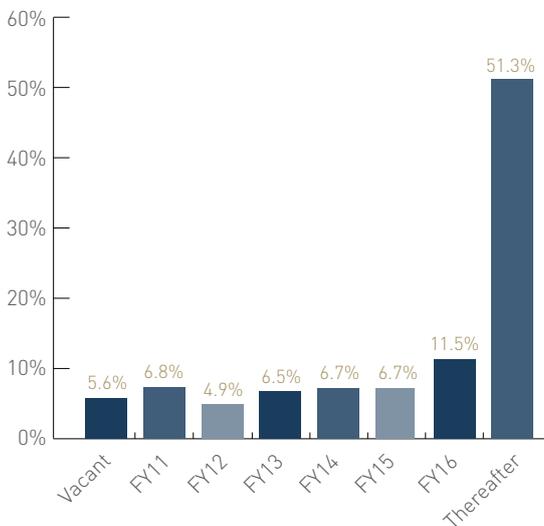
The property team oversees the management of the assets with the aim of ensuring that tenants are happy, space is leased, buildings are operating efficiently and projects are delivered on time and on budget.

June-10 proforma<sup>1</sup>

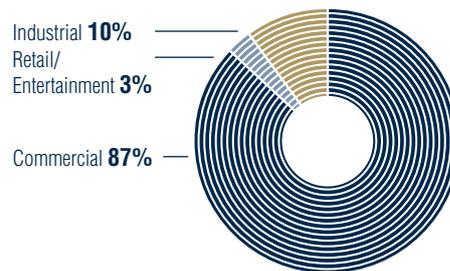
Total Value	\$1.37b
Number of properties	24
Occupancy	94.5%
Weighted Average Lease Term	6.0 years
Weighted Average Cap Rate	8.54%
Net Lettable Area	531,252 m <sup>2</sup>
Weighting to office markets (by income)	87%
NABERS Energy Rating*	4 Stars
NABERS Water Rating*	4 Stars

\* NABERS assessments are undertaken for the whole portfolio, excluding industrial and some commercial assets where the tenant has full operational control and manages the total resource consumption.

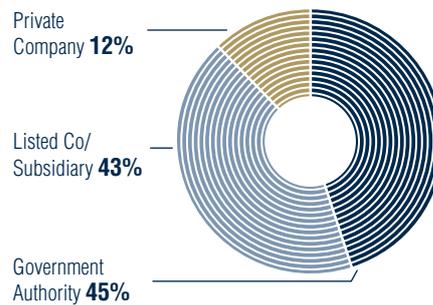
## Lease Expiry Profile % Gross Income by Financial Year



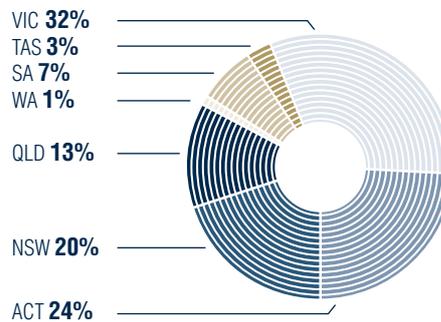
## Sector Diversification by Income<sup>1</sup>



## Gross Income by Tenant Classification<sup>1</sup>



## Geographical Diversification by Gross Income<sup>1</sup>



(1) Portfolio statistics based on proforma as at 30 June 2010 including assets acquired or under contract to 29 July 2010 (Qantas HQ, Exhibition Street and TGA Complex). Assumes 100% of Qantas HQ building is retained.

# CEO's Review

## CEO's Review



This has been a landmark year for Cromwell Group. We have worked to maximise operating earnings while implementing a long-term strategy for growth in a capital-constrained market.

The key elements of our strategy have been the alliance with our new cornerstone investor Redefine and the rebalancing of our portfolio towards quality assets (such as the Qantas Headquarters in Mascot, NSW), that we believe will provide superior risk-adjusted returns in future years.

Our existing portfolio has performed well, with operating earnings of \$64.6 million or 8.5 cps, largely underpinned by recurring property income. This property income has allowed us to pay full-year distributions of 8.0 cps, in line with guidance. Although this represents a fall from previous year's levels (and I acknowledge that any fall is disappointing), the result is significantly more robust than most in the A-REIT sector. We have been able to deliver a relatively strong earnings result mainly because our portfolio of Australian commercial office properties has generated consistent cash flows in spite of soft rental markets around the country.

Another factor in the relatively stable distribution has been our decision to resist the temptation to raise capital on a dilutive basis to retire debt. By raising money the hard way, at a fair price, we have ensured that our distribution yield per security has not been significantly impacted by the \$143 million we have raised since 30 June 2009.

After completing valuations on all of our property assets during the year, there was a decrease of 2.9% at 30 June 2010 compared to the same time last year. Property valuation decreases during the second half were a comparatively small 0.6%, giving reason to believe that the market has bottomed.

As a consequence of the decrease, Cromwell's NTA per security at 30 June 2010, was \$0.71, down from \$0.76 at 30 June 2009. This is broadly in line with our securities' trading price on the ASX.

After more than two years of downward revisions in valuations we believe the market for quality commercial property has now reached bottom and will start to recover in the medium term in line with economic growth. However, we are not anticipating rapid gains, instead, we envisage a slow recovery in property rentals and values as the economic recovery builds momentum and do not discount the possibility of further setbacks along the way. In particular, we can expect continued pressure on asset values for lower quality property as the traditional gap in yields between less risky well located, and higher risk lower quality property is restored.

Throughout the current property cycle we have maintained our consistent and disciplined approach to managing our portfolio, by disposing of a number of assets at the top of the market and acquiring a number of assets at market lows.

This strategy has served us well. The properties that were acquired for Cromwell Group and unlisted funds in 2008 and 2009 have delivered total returns in excess of 10% pa to date.

We have recently made several major acquisitions. In July 2010, we acquired, from the unlisted Cromwell Property Fund, 321 Exhibition Street, Melbourne and the one third of the TGA Complex in Canberra we did not already own. Since balance date, we have also acquired the Qantas Headquarters in Mascot, NSW for approximately \$143 million.

The acquisitions have improved the already excellent tenancy profile of the portfolio, with the TGA Complex tenanted by the Federal Government, 321 Exhibition Street to be occupied by Origin Energy and, of course, Qantas occupying its headquarters in Mascot. The result is that the portfolio has achieved a weighted average lease term of 6 years, an occupancy rate of 95% and receives 88% of its income from government or blue chip tenants. It also has an increased weighting to Melbourne and Sydney office markets where we expect to see the best growth in the short term.

This excellent leasing profile reflects the experience and quality of our leasing team and demonstrates the superiority of our internalised property management model which remains one of our key competitive advantages. Two major recent leases deserve to be highlighted as examples of their work.

Firstly, the agreement with Origin Energy to lease 78% of 321 Exhibition Street and secondly, the retention of anchor tenant Reed Elsevier with 9,117 sqm at the 475-501 Victoria Avenue office complex in Sydney.



The key elements of our strategy have been the alliance with our new cornerstone investor Redefine and the rebalancing of our portfolio towards quality assets (such as the Qantas Headquarters in Mascot, NSW), which we believe will provide superior risk-adjusted returns in future years.

Both leases were key agreements that protected the value of these assets.

Another major success during the year was the finalisation in December 2010 of the Cromwell Riverpark Trust's acquisition of the Riverpark Building in Brisbane. This \$91 million capital raising was the largest retail unlisted property raising in Australia in the past two years, reflecting the strength of our funds management division.

During the year, we also completed a strategic review of our largest unlisted fund, the Cromwell Property Fund, which has struggled since 2008 with higher gearing exacerbated by falls in asset values. As a result of the review we took the decision to sell a number of assets, including 321 Exhibition Street asset and the one third stake in the TGA Complex to the Cromwell Group and two other assets to third parties. These sales significantly reduced debt within the Fund and enabled an extension of its main debt facility, putting it on a more sound financial footing.

The Fund represents the only investment we have ever promoted in which investors are likely to lose some capital value. The performance of the Fund remains our greatest disappointment and is a stark reminder to us of the difficulties which have been prevalent in the market in Australia over the past 2 ½ years and the unique challenges that this situation has presented. The stabilisation of the Cromwell Property Fund since balance date was an important step forward for the Group's funds management division and the investors in the Fund, after the Fund was frozen in 2008 as a result of market volatility.

It demonstrated the value to unitholders of having a strong manager, as many other unlisted funds continue to struggle to find a way forward. We are determined to continue to work hard to restore further value for investors in this Fund over the years to come.

Another very important event during the year was the cementing of our relationship with Redefine Properties Limited, a South African REIT, through a \$73.3 million placement of securities to a subsidiary, Redefine Australian Investments Limited. The introduction of Redefine Australia as a long-term investor is expected to benefit Cromwell beyond the immediate impact of the placement. We view this as a strategic alliance which will allow us to leverage off Cromwell's strengths in an improving market and provide flexible solutions.

Since balance date, we raised over \$70 million from a further Placement and Rights Issue to fund the acquisition of the Qantas Headquarters. The introduction of new securityholders through the Placement should assist our liquidity in the future, opening up the possibility of participation in the ASX 200 and ASX 300 indices over time. Participation in these market indices remains an important goal for the Group as it significantly broadens the number of institutional fund managers who can potentially invest in Cromwell.

In regards to our debt position, we have already commenced negotiations on facilities expiring later in 2011. Based on preliminary discussions, we expect that we will be able to extend or refinance these facilities well ahead of their due dates.

Looking forward, we plan to continue our disciplined approach to growth this year, focussing on maximising the quality of our portfolio through selected acquisitions, while supplementing property earnings with increasing contributions from our funds management division. We will also consider opportunistic transactions as the economy and confidence continue to recover.

Our focus on identifying and acquiring Australian assets with long lease profiles and quality tenants has served us very well over the last decade and should continue to give investors confidence about the future.

Irrespective of any future transactions, we remain well placed to deliver solid earnings in the coming year through continued strong underlying property earnings, supplemented by possible improving contributions from our funds management activities.

**Paul Weightman**  
Managing Director / CEO

# Directors' Report

## Directors' Report



Geoffrey Levy, AO  
Chairman



Paul Weightman  
Chief Executive Officer



Daryl Wilson  
Finance Director



Richard Foster  
Non-Executive Director



Robert Pullar  
Non-Executive Director

The Directors of Cromwell Corporation Limited ("the Company") present their report for Cromwell Group ("the Group") for the year ended 30 June 2010.

The shares of the Company and units of Cromwell Diversified Property Trust ("the Trust") are combined and issued as stapled securities in the Group. The shares of the Company and units of the Trust cannot be traded separately and can only be traded as stapled securities.

## 1. Directors & Officers

### (a) Directors

The persons who were Directors of the Company at any time during the financial year and up to the date of this report were:

#### Mr Geoffrey Levy (AO) – Chairman

Mr Levy has extensive public company executive and directorship experience and is the former Chief Executive Officer and current Deputy Chairman of Investec Bank (Australia) Ltd. He is currently Chairman of Speciality Fashion Group Limited. He was appointed an Officer in the Order of Australia in the Queen's Birthday Honours List in June 2005.

#### Mr Robert Pullar – Non-Executive Director

Mr Pullar is a Director of the Brisbane based property development company operating in Australia and Asia, Citimark Properties. He was previously a partner with chartered accounting firm Douglas Heck and Burrell, specialising in property investment, taxation and corporate reorganisation. Mr Pullar is a member of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors. He is Chairman of Cromwell's Nomination & Remuneration Committee, Chairman of Cromwell's Investment Committee, and a member of Cromwell's Audit & Risk Committee.

#### Ms Michelle McKellar – Non-Executive Director

Ms McKellar has a wealth of property and portfolio management experience, having held a number of senior positions with Intro International Limited (now Jen Retail Properties) and CB Richard Ellis throughout Asia-Pacific. She is a Senior Member of the Property and Land Economy Institute and runs her private property companies. Ms McKellar is a member of Cromwell's Nomination & Remuneration, Audit & Risk and Investment Committees.

#### Mr David Usasz – Non-Executive Director

Mr Usasz has 20 years experience as partner with PricewaterhouseCoopers and has been involved in merger and acquisition advice, accounting and financial consultancy, specialising in corporate re-organisations. He is currently Chairman of Queensland Mining Corporation Limited. He holds a Bachelor of Commerce and is a Fellow of the Institute of Chartered Accountants. Mr Usasz is Chairman of Cromwell's Audit & Risk Committee and a member of Cromwell's Nomination & Remuneration and Investment Committees.

#### Mr Richard Foster – Non-Executive Director

Mr Foster is a licensed real estate agent with substantial experience in the real property industry specialising in large-scale property acquisition for most of his professional life. He has had substantial input to the growth and development of the business and the Group's investment products. Mr Foster is a member of Cromwell's Nomination & Remuneration and Investment Committees.

#### Mr Marc Wainer – Non-Executive Director

Mr Wainer has more than 35 years experience in the property industry in South Africa, including founding Investec Property Group, Investec Bank's property division. Marc is Chief Executive Officer and an Executive Director of listed South African property group Redefine Properties which he founded, and a director of Redefine International, a listed property investment company which is a substantial securityholder of Cromwell Group. He also is a non-executive director of Hyprop Investments Limited, a South African listed retail property fund.



David Usasz  
Non-Executive Director



Michelle McKellar  
Non-Executive Director



Marc Wainer  
Non-Executive Director



Michael Flax  
Alternate Director



Nicole Riethmuller  
Company Secretary

### Mr Paul Weightman – Chief Executive Officer

Mr Weightman practised as a solicitor for more than 20 years, and holds degrees in commerce and law. He has extensive experience in property development and investment, financial structuring, public listings, mergers and acquisitions, revenue matters and joint ventures. Mr Weightman was Cromwell's Executive Chairman from 1998 until the appointment of Mr Levy in April 2008, and has acted as a Director of companies in the property, energy and retail sectors. Mr Weightman is a member of Cromwell's Investment Committee.

### Mr Daryl Wilson – Finance Director

Mr Wilson is a member of the Institute of Chartered Accountants, and joined Cromwell in August 1999 in the role of Chief Financial Officer. He has many years experience in senior finance roles. Mr Wilson has led the development of Cromwell's funds management capabilities, and has primary responsibility for the finance function. He holds a Bachelor of Commerce and a Diploma of Financial Planning. Mr Wilson is a member of Cromwell's Investment Committee.

### Mr Michael Flax – Alternate Director

Mr Flax was appointed in January 2010 as an alternate director to Mr Marc Wainer.

All Directors of the Company are also Directors of Cromwell Property Securities Limited, the Responsible Entity of the Trust.

### (b) Directorships of other listed entities in last 3 yrs

Mr. Geoffrey Levy has been a Director of Specialty Fashion Group since 8 April 2005. Mr. Levy was a director of Ten Network Holdings from 3 April 1998 until his resignation from the Board on 25 October 2007 and a director of STW Group Limited from 24 November 1993 until his resignation from the Board on 1 July 2008.

Mr Usasz has been a director of Queensland Mining Corporation Limited since 15 June 2007.

No other Director has been a director of any other listed company during the 3 years preceding the end of the financial year, and up to the date of this report.

### (c) Company Secretary

#### Ms Nicole Riethmuller - Company Secretary

Ms Riethmuller has 15 years experience as a corporate lawyer having worked primarily in the financial services industry. Prior to joining Cromwell, Nicole was General Counsel at the Queensland Investment Corporation where she headed the in-house legal team. Before that she was a Senior Associate in the Funds Management team at Minter Ellison lawyers in Sydney. Nicole has also been a lawyer and Assistant Company Secretary at Queensland Sugar Corporation. She has a Bachelor of Laws and a Bachelor of Commerce from the University of Queensland.

### (d) Directors' Meetings

The number of Directors' meetings (including meetings of committees of the Board) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Board		Nomination & Remuneration Committee		Audit & Risk Committee		Investment Committee	
	A	B	A	B	A	B	A	B
Geoffrey Levy	14	14	-	-	-	-	-	-
Robert Pullar	14	14	1	1	6	7	1	1
Michelle McKellar	14	14	1	1	7	7	1	1
David Usasz	13	14	1	1	7	7	-	-
Richard Foster	14	14	1	1	-	-	1	1
Marc Wainer	4	6	-	-	-	-	-	-
Michael Flax	1	1	-	-	-	-	-	-
Paul Weightman	14	14	-	-	-	-	1	1
Daryl Wilson	14	14	-	-	-	-	1	1

A – Number of meetings attended

B – Number of meetings eligible to attend

## 2. Principal Activities

The principal activities of the Group during the financial year consisted of property investment and management, the promotion and management of property related managed investment schemes and property development.

There were no significant changes in the nature of the Group's principal activities during the financial year.

## 3. Dividends/ Distributions

	Dividend per Security	Distribution per Security	Total per Security	Total \$'000	Franked amt per Security	Record Date	Payment Date
<b>2010</b>							
Interim distribution	-	2.00¢	2.00¢	14,062	-	06/10/09	16/11/09
Interim distribution	-	2.00¢	2.00¢	14,242	-	31/12/09	15/2/10
Interim distribution	-	2.00¢	2.00¢	16,157	-	07/4/10	14/5/10
Final distribution	-	2.00¢	2.00¢	16,157	-	30/6/10	31/8/10 <sup>(1)</sup>
	-	8.00¢	8.00¢	60,618	-		
<b>2009</b>							
Interim distribution	-	2.50¢	2.50¢	17,577	-	01/10/08	14/11/08
Interim distribution	-	2.50¢	2.50¢	17,577	-	31/12/08	16/02/09
Interim distribution	-	2.50¢	2.50¢	17,577	-	14/04/09	15/05/09
Final distribution	-	1.50¢	1.50¢	10,546	-	30/06/09	31/08/09
	-	9.00¢	9.00¢	63,277	-		

(1) Expected payment date

## 4. Review of Operations

### (a) Financial Performance

The Group recorded a profit after tax of \$19,053,000 for the year ended 30 June 2010 compared with a loss of \$113,511,000 for the previous year. The achievement of this positive result has come as the general economic recovery in the market place continues at a sluggish pace.

The statutory accounting profit was impacted by a number of substantial non-cash items. These included:

- A decrease in the fair value of the Group's investment properties of \$32,146,000 (2009: decrease of \$104,288,000) which represented a decrease of approximately 3% in the value of investment properties;
- Write down of \$6,331,000 (2009: \$11,463,000) relating to the Group's property development obligations; and
- Gain on the sale of available-for-sale financial assets of \$3,431,000 (2009: write down of \$3,663,000).

Other significant items impacting the operating results for the year included:

- Rental income and recoverable outgoings of \$117,262,000 increased by 4% on the previous year;
- Fund management fees of \$9,283,000 mainly as a result of fees charged in relation to the Cromwell Riverpark Trust; and
- Net finance costs (net of interest received) decreased by 11% on the previous year, due to lower interest rates.

## (b) Operating Profit/(loss)

The profit for the 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's profit from operations. A reconciliation of profit from operations, as assessed by the Directors, to the reported net profit/(loss) for the year is as follows:

	2010 \$'000	2009 \$'000
Profit from operations <sup>(1)</sup>	64,630	63,761
<i>Reconciliation to profit/(loss) for the year</i>		
Loss on sale of investment properties	(554)	-
Gain on sale of available-for-sale financial assets	3,431	-
Fair value net gains/(write-downs):		
Investment properties	(32,146)	(104,288)
Interest rate derivatives	(1,283)	(22,479)
Investments at fair value through profit or loss	836	(3,107)
Available for sale financial assets	-	(3,663)
Property development inventories/provision	(6,331)	(11,463)
Investment in associate	-	(232)
Loan receivable	1,932	(4,890)
Non-cash property investment income/(expense):		
Straight-line lease income	852	1,716
Lease incentive and lease cost amortisation	(5,411)	(4,303)
Other non-cash expenses:		
Amortisation of finance costs	(1,861)	(1,415)
Employee options expense	(339)	(233)
Amortisation and depreciation	(552)	(545)
Relating to equity accounted investments <sup>(2)</sup>	(2,643)	(20,237)
Net tax losses incurred/(utilised)	(1,508)	(2,133)
<b>Net profit/(loss) for the year</b>	<b>19,053</b>	<b>(113,511)</b>

(1) Includes other income of \$nil (2009: \$6,217,000).

(2) Comprises fair value adjustments included in share of profit of equity accounted entities.

Profit from operations for the year was \$64,630,000 (2009: \$63,761,000). Despite the economic environment remaining extremely challenging, profit from operations remained largely resilient through the economic turmoil of global markets.

The performance of the investment property portfolio reflects Cromwell Group's commitment to an in-sourced management model, with significant benefits attached to the integrated property management and tenant relationship activities. High renewal rates with tenants continue to be achieved, and the portfolio was 96% leased at year-end, with a 4.8 year weighted average lease term. Importantly, tenant quality is also exceptional, with 51% of rental income at balance date underpinned by Government or Government owned/funded entities, and a further 33% from listed companies or their subsidiaries.

The acquisition of 321 Exhibition Street in Melbourne, the Qantas headquarters in Sydney and the balance of the TGA complex since balance date are expected to continue to improve the portfolio quality.

## (c) Earnings per Stapled Security

	2010 Cents	2009 Cents
Basic/diluted operating earnings per stapled security <sup>(1)</sup>	8.5	9.1
Basic/diluted earnings/(loss) per stapled security	2.5	(16.1)

(1) Based on profits from operations disclosed above.

Basic operating earnings attributable to stapled securityholders were 8.5 cents (2009: 9.1 cents). Distributions paid for the year were 8.0 cents (2009: 9.0 cents), including a June quarter distribution of 2.0 cents per stapled security to be paid on 31 August 2010.

#### (d) Financial Position

	2010	2009
Total assets (\$'000)	<b>1,282,828</b>	1,308,823
Net assets (\$'000)	<b>571,407</b>	539,593
Net tangible assets (\$'000) <sup>(1)</sup>	<b>570,120</b>	537,358
Net debt (\$'000) <sup>(2)</sup>	<b>568,117</b>	656,195
Gearing (%) <sup>(3)</sup>	<b>48%</b>	53%
Securities issued ('000)	<b>807,835</b>	702,943
NTA per security	<b>\$0.71</b>	\$0.76

(1) Net assets less deferred tax asset and intangible assets.

(2) Borrowings less cash and cash equivalents and restricted cash.

(3) Net debt divided by total assets less cash and cash equivalents and restricted cash.

NTA per security has decreased during the year, from \$0.76 to \$0.71, primarily as a result of the decreases in fair value of the investment properties and other non-cash items noted above.

Gearing decreased from 53% to 48%, despite the decrease in investment property values, due to the Group repaying \$56,988,000 of debt during the year, and net assets increasing due to the placement of securities in December 2009 of \$72,990,000 (net of equity issue transaction costs).

#### (e) Outlook

The outlook remains positive for the Group, despite the sluggish pace of economic recovery. The proportion of earnings from recurring sources of property investment and funds management was higher during the current year, and this is expected to continue in the coming year.

The Groups' property portfolio is expected to continue to deliver consistent earnings. However, the Group is not immune to the impacts of recent events and higher interest rates combined with a higher than normal percentage of lease expiries in the 2011 financial year are expected to have some impact on operating earnings. Despite these impacts, growth in funds under management and funds management earnings is expected to continue in future years.

The portfolio values are now anticipated to have stabilised. The Group aims to maintain gearing below the target maximum of 55% through a combination of some sales of smaller non-core assets and prudent capital management.

## 5. Significant Changes in the State of Affairs

Changes in the state of affairs of the Group during the financial year are set out within the financial report.

There were no significant changes in the state of affairs of the Group during the financial year other than as disclosed in this report and the accompanying financial report.

## 6. Subsequent Events

Other than as set out in note 41 of the financial report, no matter or circumstance has arisen since 30 June 2010 that has significantly affected or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

## 7. Likely Developments

The Group will continue to pursue activities which increase profitability of the Group, and create value for securityholders. Further information in relation to likely developments, and the impact on the operations of the Group, has not been included in this report as the Directors believe it would result in unreasonable prejudice to the Group.

## 8. Environmental Regulation

The Directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to the Group.

## 9. Directors' Interests

The interests of current Directors in securities of the Company at the date of this report are as follows:

	Stapled Securities	Performance Rights	Options over Securities
Geoffrey Levy	370,000	-	-
Robert Pullar	14,000,000	-	-
Michelle McKellar	330,000	-	-
David Usasz	1,927,580	-	-
Paul Weightman	15,464,167	738,733	-
Richard Foster	5,261,765	-	-
Daryl Wilson	1,955,744	344,200	-
Marc Wainer	-	-	-
Michael Flax	-	-	-
	39,309,256	1,082,933	-

## 10. Options

### (a) Securities under option through the Performance Rights Plan

Stapled securities in Cromwell Group under option through the Performance Rights Plan at the date of this report are as follows:

Date granted	Exercise date	Exercise price	Expiry date	Number of options
18/09/07	19/12/10 – 19/01/11	\$1.21	19/01/11	2,811,434
18/09/07	19/12/10 – 19/01/11	\$0.00	19/01/11	8,600
06/12/07	07/03/11 – 07/04/11	\$1.21	07/04/11	1,082,933
16/12/09	16/12/11 – 15/01/12	\$0.20	15/01/12	659,600
08/02/10	07/02/12 – 07/03/12	\$0.00	07/03/12	126,859
				4,689,426

No option holder has any right under the options to participate in any other share or interest issue of the Company or any other entity, except that the Performance Right holders have a matching in-substance option for units in Cromwell Diversified Property Trust as a result of the Group's stapling arrangement.

### (b) Securities issued on the exercise of options through the Performance Rights Plan

No stapled securities have been issued on the exercise of options through the Performance Rights Plan during the year and up to the date of this report.

### (c) Securities under option through Employee Share Ownership Plan

There were no securities in Cromwell Group held by the Employee Share Ownership Plan at the date of this report. Movements during the year are outlined below.

#### Movement in number of options

	Number of options
Balance at 1 July 2009	141,875
Vested and exercised prior to year end	(141,875)
<b>Balance at 30 June 2010</b>	-

## 11. Remuneration Report

The remuneration report outlines the remuneration practices for the Directors and Executives which include Key Management personnel ("KMP") and the five highest paid executives.

The remuneration report is set out under the following main headings:

- (a) Remuneration principles
- (b) Details of remuneration
- (c) Performance assessment
- (d) Share-based compensation
- (e) Employment contracts and termination provisions

### (a) Remuneration principles

#### (i) Governance

The Group has appointed a Nomination and Remuneration Committee ("Committee"). The Committee has overall responsibility for the remuneration strategies of the Group. The Committee also advises the Board on remuneration policy and practices. The Committee is chaired by Mr RJ Pullar, a non-executive director. External consultants are appointed to advise the Committee as required.

#### (ii) Policy

The Group aims to remunerate competitively and appropriately such that it attracts, retains and motivates the highest calibre employees. The Group seeks to emphasise payment for results when setting remuneration for executives, through providing short and long term incentives, and linking these to key performance indicators which reinforce both the short and long-term goals of the Group and provide a common interest between management and securityholders.

Executive remuneration is benchmarked periodically against the market, based on national remuneration levels for similar companies taking into account factors such as number of employees, revenue and market capitalisation/total assets. The Group seeks to align all of its key performance metrics for employees from the objectives set by the Board at the beginning of each financial year, such that all service agreements and key performance indicators for both executives and non-executives align with these objectives.

Performance is assessed not less than annually in light of performance against individual and Group related goals. The Group looks to mitigate risk by conservatively balancing the base pay to short term and long term incentives ratio. Long term incentives are paid by way of security based compensation. The remuneration of individual employees is structured in such a way that it reflects the individual's previous experience, qualifications, responsibility and performance. The employment or remuneration of any executive of the Group is not influenced by the executive's shareholding in the Group.

### Executive remuneration

The executive remuneration framework has three components:

- base pay and benefits, including superannuation
- short term incentives
- long term incentives.

Base pay may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed base pay increases included in any executive's contract.

Short term and long term incentives are linked to the achievement of individual objectives, both financial and non-financial, which are relevant to meeting the Group's business objectives.

Short term incentives are generally paid as cash bonuses. Cash bonus entitlements are assessed and paid based on the actual performance against the relevant key performance indicator targets. For all executives except the Chief Executive Officer, the Chief Executive Officer is responsible for assessing whether an executive's targets have been met, and key performance indicator targets are reviewed and reset annually. The key performance indicator targets for the Chief Executive Officer are set, revised and reviewed by the Committee or the Board.

Long term incentives comprise participation in equity compensation plans. The Group established a Performance Rights Plan ("PRP") during the 2008 year. The PRP enables eligible employees to acquire Performance Rights. Each Performance Right enables the holder to acquire a stapled security in Cromwell Group, at a future date and exercise price, subject to conditions. Eligibility for the PRP is approved having regard to individual circumstances and performance.

Performance Rights generally vest in 3 years. Until the Performance Rights have vested, the employee cannot sell or otherwise deal with the Performance Rights except in certain limited circumstances. An employee must remain employed by the Group in order for the Performance Rights to vest. Any Performance Rights which have not yet vested on an employee leaving service must be forfeited.

The number of key management personnel participating in the PRP during the year was 6 (2009: 10). The number of Performance Rights allocated to key management personnel at balance date was 2,755,958 (2009: 2,663,982).

The Group established the Cromwell Employee Share Ownership Plan ("ESOP") during 2003. No grants were made under the ESOP during 2009 or 2010, and it is not intended that any further grants will be made by this plan in the future. Under the ESOP, eligible employees were allocated shares in the Company. The shares were acquired by the eligible employees at the time of allocation, funded by a loan from the Company to the eligible employee.

Under AIFRS, the shares held within the ESOP were classified as in-substance options, and accounted for as treasury stock, reducing contributed capital. The Group is required to expense the options over the period from grant date to vesting date.

The number of key management personnel participating in the ESOP in the 2010 year was nil (2009: 1). The number of stapled securities allocated to key management personnel under the ESOP at balance date was nil (2009: 141,875).

### Directors' remuneration

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. The Board determines remuneration of non-executive Directors within the maximum amount approved by securityholders from time to time. This maximum currently stands at \$700,000 per annum in total for fees, to be divided among the non-executive Directors in such a proportion and manner as they agree. Non-executive Directors are paid a fixed remuneration, comprising base fees or salary and superannuation (if applicable). Non-executive Directors do not receive bonus payments or participate in security-based compensation plans, and are not provided with retirement benefits other than statutory superannuation.

Annual fees to Non-executive Directors for Board and Board Committees for 2010 are shown in the table below:

	2010 \$
Chairman	<b>150,000</b>
Non-Executive Director	<b>75,000</b>
Audit & Risk Committee – Chairman	<b>18,000</b>
Audit & Risk Committee – Member	<b>12,000</b>
Nomination & Remuneration Committee – Chairman	<b>7,500</b>
Nomination & Remuneration Committee – Member	<b>5,000</b>
Investment Committee	-

## (b) Details of remuneration

Remuneration paid, payable, or otherwise made available, directly or indirectly, to key management personnel is set out below. Other than the key management personnel shown below, there were no other key management personnel of the Company or Group during the year. Key management personnel below include the five highest remunerated Group executives and Company executives.

Key management personnel during the year were:

### Non-Executive Directors:

Mr GH Levy (AO)	Chairman	Mr DE Usasz	Director
Mr RJ Pullar	Director	Mr M Wainer	Director
Ms MA McKellar	Director	Mr WR Foster	Director

### Executive Directors:

Mr PL Weightman	Chief Executive Officer
Mr DJ Wilson	Chief Financial Officer

### Other Senior Executives:

Mr PW Howard	Chief Operating Officer	Ms JA Clark	Transactions Manager
Mr DA Gippel	Structured Finance Manager	Mr B Binning	National Leasing Manager
Ms NE Riethmuller	General Counsel/Company Secretary	Mr MJ Blake	National Head of Distribution

	Short-term benefits Cash salary and fees \$	Short-term benefits Accrued Leave (4) \$	Short-term benefits Cash bonus \$	Short-term benefits Non-cash benefits \$	Post-employment Super-annuation \$	Long-term benefits Long service leave \$	Share-based payments Options \$	Total Remuneration \$	% of Remun. that is performance based
<b>2010</b>									
<b>Non-Executive Directors</b>									
GH Levy	137,615	-	-	-	12,385	-	-	150,000	-
RJ Pullar	86,697	-	-	-	7,803	-	-	94,500	-
MA McKellar	84,404	-	-	-	7,596	-	-	92,000	-
DE Usasz	89,908	-	-	-	8,092	-	-	98,000	-
M Wainer (1)	31,250	-	-	-	-	-	-	31,250	-
WR Foster (2)	97,416	-	-	-	6,968	-	-	104,384	-
<b>Executive Directors</b>									
PL Weightman	678,356	6,433	150,000	157,900	13,744	10,041	36,482	1,052,956	18%
DJ Wilson	386,256	14,279	100,000	-	13,744	8,440	16,998	539,717	22%
<b>Other key management personnel</b>									
PW Howard	236,870	7,288	-	-	14,461	1,669	-	260,288	-
DA Gippel	247,202	2,852	60,000	22,564	14,461	8,182	99,935	455,196	35%
MJ Blake	236,254	(909)	63,700	-	14,461	5,366	20,328	339,200	25%
NE Riethmuller	250,000	11,538	-	-	14,461	1,068	-	277,067	-
B Binning (3)	208,999	5,627	137,500	-	14,461	2,515	26,728	395,830	41%
JA Clark	145,999	(119)	-	-	13,218	2,426	6,261	167,785	4%
	<b>2,917,226</b>	<b>46,989</b>	<b>511,200</b>	<b>180,464</b>	<b>155,855</b>	<b>39,707</b>	<b>206,732</b>	<b>4,058,173</b>	

(1) Appointed on 29 January 2010

(2) Became a non executive director on 1 July 2009

(3) Became a KMP from 1 July 2009

(4) Comprises movement in annual leave entitlements

	Short-term benefits Cash salary and fees \$	Short-term benefits Accrued leave (4) \$	Short-term benefits Cash bonus \$	Short-term benefits Non-cash benefits \$	Post-employment Super-annuation \$	Long-term benefits Long service leave \$	Share-based payments Options \$	Total Remuneration \$	% of Remun. that is performance based
<b>2009</b>									
<b>Non-Executive Directors</b>									
GH Levy	137,615	-	-	-	12,385	-	-	150,000	-
RJ Pullar	92,500	-	-	2,000	-	-	-	94,500	-
MA McKellar	84,404	-	-	-	7,596	-	-	92,000	-
DE Usasz	89,908	-	-	-	8,092	-	-	98,000	-
<b>Executive Directors</b>									
PL Weightman	678,355	77,688	-	157,900	14,718	7,369	28,725	964,755	3%
WR Foster	195,000	-	-	-	-	-	-	195,000	-
DJ Wilson	386,256	14,668	75,000	-	14,485	19,181	13,384	522,974	17%
<b>Other key management personnel</b>									
PW Howard	235,049	9,110	-	-	13,745	851	-	258,755	-
SM Morgan (1)	88,662	(6,691)	-	-	12,550	(1,689)	(3,610)	89,222	-
DA Gippel	246,956	1,841	75,000	19,568	13,745	8,003	31,450	396,563	27%
MC McLaughlin (2)	182,092	1,652	-	-	13,745	3,461	13,733	214,683	6%
MJ Blake	236,038	(4,672)	-	-	13,745	4,743	17,654	267,508	7%
PJ McDonnell (2)	200,000	3,077	-	-	13,745	2,438	10,453	229,713	5%
PJ Cowling (2)	250,926	(8,340)	-	-	13,745	3,803	12,149	272,283	4%
NE Riethmuller (3)	158,654	3,070	-	-	10,309	255	-	172,288	-
JA Clark	152,912	588	-	7,123	12,367	2,074	5,556	180,620	3%
	3,415,327	91,991	150,000	186,591	174,972	50,489	129,494	4,198,864	

(1) Resigned on 11 November 2008

(2) Not considered a Key Management Person in 2010

(3) Appointed on 11 November 2008

(4) Comprises movement in annual leave entitlements

### (c) Performance assessment

Performance linked remuneration includes both short term and long term incentives. Performance remuneration seeks to link the overall level of executive reward with the performance of the Group over a number of years, with greater emphasis given to the current year. Performance is monitored through the identification of performance criteria which must be met for each executive.

#### Short term incentives

Executives receive performance related cash bonuses which are linked to the achievement of individual objectives relevant to their business unit and the Group's business objectives.

Although the performance criteria may be different for each executive the overriding principles involve assessment of performance against the following areas:

Financial	Including Group's financial performance and performance of the individual executive's business unit, with concentration on operating profit per security as assessed by the Directors and set out in part 4 of the Directors Report and long term Total Shareholder Returns ("TSR") relative to peers.
Non-Financial	Achievement of personal objectives related to identified non-financial business targets, implementing operational improvements for the Group, achieving performance enhancements and overseeing personal and staff development.
Governance	Achieving performance consistent with the Group's values and obligations and meeting standards of professional conduct.

### Long term incentives

The Group has established a Performance Rights Plan. For executives, the ability to exercise the Performance Rights is generally conditional on the executive meeting internal performance hurdles, remaining employed by the Group for a specified period and, in some cases, the Group achieving predefined TSR (Total Shareholder Return) hurdles. TSR is defined as being the amount of dividends/distributions per security paid/payable by the Group during the review period (divided by the share price at the beginning of the review period) plus the percentage change in the price at which securities in the Group are traded between the beginning and the end of the period.

The dividends/distributions per security and share price at year end for the past two financial years were as follows:

	2010	2009
Dividend/distributions per security	8.0¢	9.0¢
Share price at year end	69.0¢	52.0¢

The operating earnings for the Group for the past two financial years and TSR for the last one, three and five financial years compared with relevant indices are shown below.

#### Operating profit

Operating profit (as assessed by the Directors – see part 4(b) above)	\$64,630,000	\$63,761,000
Operating profit per security	8.0 cents	9.1 cents
Change over previous year	(12%)	(10%)

TSR	1 Year	3 Year	5 Year
TSR – Group	49%	(6%)	30%
TSR - S&P/ASX 300 A-REIT accumulation index	20%	(24%)	(8%)
Group outperformance against S&P/ASX 300 A-REIT accumulation index	29%	19%	38%
TSR – All Ords	14%	(8%)	5%
Group outperformance against All Ords	36%	2%	25%

#### Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables in Section b above, the percentage of the available bonus or grant that was paid, or that vested, in the year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The options are subject to vesting conditions as outlined above (under the heading of long term incentives). No options will vest if the conditions are not satisfied, hence the minimum value of options yet to vest is \$nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Cash Bonus Paid %	Cash Bonus Forfeited %	Year Options Granted	Options Vested in 2010 %	Options Forfeited in 2010 %	Years in which options may vest	Minimum total value of grant to vest \$	Maximum total value of grant to vest \$
PL Weightman	100%	-	2008	-	-	2011	-	13,835
DJ Wilson	100%	-	2008	-	-	2011	-	6,447
PW Howard	-	-	-	-	-	-	-	-
DA Gippel	100%	-	2008/2010	28%	-	2011-2012	-	205,891
MJ Blake	-	-	2008	-	-	2011	-	5,183
NE Riethmuller	-	-	-	-	-	-	-	-
B Binning	92%	8%	2008/2010	-	-	2011-2012	-	63,377
JA Clark	-	-	2008	-	-	2011	-	1,998

#### (d) Share-based compensation

Details of the Performance Rights Plan and the Employee Share Ownership Plan are set out at part (a) of the remuneration report. No further securities are expected to be granted under the Employee Share Ownership Plan.

In prior years an allocation of options was granted to executive Directors and executives as share based compensation. All Directors and executives of the Company and its controlled entities are considered for participation in the Performance Rights Plan subject to a minimum period of service, which may be waived by the Committee. Participation by Directors is subject to securityholder approval.

Consideration for granting options, grant periods, vesting and exercise dates, exercise periods and exercise prices are determined by the Board or Committee in each case. Options granted under the Employee Share Ownership Plan carry the same voting rights as ordinary Stapled Securities. Performance rights granted under the Performance Rights Plan carry no voting rights. When exercisable, each performance right is convertible into one stapled security.

The terms and conditions of each grant of options under the Performance Rights Plan affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Expiry Date	Exercise Price	No of Options Granted	Assessed Value per Option at Grant Date
18/09/2007	19/01/2010	\$1.21	407,500	9.2¢
18/09/2007	19/01/2011	\$1.21	2,439,300	10.6¢
18/09/2007	19/01/2011	\$1.21	92,100	15.0¢
06/12/2007	07/04/2011	\$1.21	1,624,400	8.9¢
16/12/2009*	15/01/2012	\$0.20	659,600	41.5¢
08/02/2010*	07/03/2012	-	126,859	59.1¢

\*These options were granted under the Performance Rights Plan during 2010. No options under the Performance Rights Plan were granted during 2009.

No options under the Employee Share Ownership Plan were granted during the 2010 or 2009 years.

Details of changes during the 2010 year in Performance Rights which were provided to Key Management Personnel under the Performance Rights Plan are set out below.

	Opening balance	Granted during year	Exercised during the year	Forfeited during the year	Lapsed during year	Closing balance
<b>2010</b>						
PL Weightman	<b>738,733</b>	-	-	-	-	<b>738,733</b>
DJ Wilson	<b>344,200</b>	-	-	-	-	<b>344,200</b>
DA Gippel	<b>460,083</b>	<b>659,600</b>	-	-	<b>(203,750)</b>	<b>915,933</b>
MJ Blake	<b>338,000</b>	-	-	-	-	<b>338,000</b>
B Binning	<b>200,133</b>	<b>126,859</b>	-	-	-	<b>326,992</b>
J A Clark	<b>92,100</b>	-	-	-	-	<b>92,100</b>
	<b>2,173,249</b>	<b>786,459</b>	-	-	<b>(203,750)</b>	<b>2,755,958</b>

As the TSR for 2009 was above the hurdle of 13% no Performance Rights relating to that year were forfeited during the current year by executives. As the review dates for Performance Rights occur in September and December each year, the impact of the 2010 TSR will be reviewed in those months and Performance Rights will be forfeited if required.

The assessed fair value at grant date of Performance Rights granted is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair value at grant date for Performance Rights with no market based vesting conditions are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying securities, the expected dividend/distribution yield and the risk-free interest rate for the term of the option. Fair value at grant date for Performance Rights with market based vesting conditions are determined using a Monte Carlo simulation (TSR hurdle) and the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying securities, the expected dividend/distribution yield and the risk-free interest rate for the term of the option.

A total of 786,459 Performance Rights were granted during the 2010 year. No Performance Rights were granted in 2009.

Plan rules contain a restriction on removing the "at risk" aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the "at risk" aspect of an instrument before it vests without explicit approval from the Board.

Further details relating to options are set out below:

Name	Remuneration consisting of options <sup>(1)</sup>	Value at grant date <sup>(2)</sup> \$	Value at exercise date <sup>(3)</sup> \$	Value at forfeit date <sup>(4)</sup> \$
PL Weightman	3%	-	-	-
DJ Wilson	3%	-	-	-
PW Howard	0%	-	-	-
DA Gippel	22%	273,914	-	-
MJ Blake	6%	-	-	-
NE Riethmuller	0%	-	-	-
B Binning	7%	75,000	-	-
JA Clark	4%	-	-	-

(1) The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

(2) The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

(3) The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

(4) The value at lapse date of options that were granted as part of remuneration and that were forfeited during the year because a vesting condition was not satisfied.

(5) Non-executive directors are not entitled to be granted options and therefore are not included in the above table.

## (e) Employment contracts and termination provisions

### Termination

There are no fixed terms in executive employment contracts. Where an employee is guilty of misconduct, fraud or serious or repeated breaches of the employee code of conduct, the Group may terminate immediately without notice. In the event of termination of employment by the Group for other reasons, termination payments are payable if minimum notice periods are not adhered to.

Notice periods for executives are as follows:

	Notice Period
CEO, Finance Director, Structured Finance Manager	6 months
All other executives	3 months

On termination, a portion of short term incentives may also be paid at the discretion of the CEO, or the Board in the case of termination of the CEO. In addition, other statutory entitlements such as accrued leave may be taken as termination benefits.

### Employment Contract – Chief Executive Officer

Remuneration and other terms of employment for Paul Weightman, Chief Executive Officer, are formalised in an employment agreement. Mr Weightman may terminate the agreement at any time with six months notice. Other major provisions of the agreement are as follows:

- Term of agreement – Commencing 1 July 2006, no fixed termination date.
- Base salary, inclusive of superannuation, for the 2010 year of \$850,000, thereafter to be reviewed annually by the remuneration committee.
- Performance cash bonus of up to \$150,000 with targets to be reviewed annually by the remuneration committee.

### Employment Contract – Finance Director

Remuneration and other terms of employment for Daryl Wilson, Chief Financial Officer, are formalised in an employment agreement. Mr Wilson may terminate the agreement at any time with six months notice. Other major provisions of the agreement are as follows:

- Term of agreement – commencing 1 July 2006, no fixed termination date.
- Base salary, inclusive of superannuation, for the 2010 year of \$400,000, to be reviewed annually by the remuneration committee.
- Performance cash bonus of up to \$100,000 with targets to be reviewed annually by the remuneration committee.

## 12. Indemnifying Officers or Auditor

Subject to the following, no indemnity or insurance premium was paid during the financial year for a person who is or has been an officer of the Group.

The constitution of the Company provides that to the extent permitted by law, a person who is or has been an officer of the Company is indemnified against certain liabilities and costs incurred by them in their capacity as an officer of the Company.

Further, the Company has entered into a Deed of access, insurance and indemnity with each of the Directors and the company secretary. Under the deed, the Company agrees to, amongst other things:

- indemnify the officer to the extent permitted by law against certain liabilities and legal costs incurred by the officer as an officer of the Company and its subsidiaries;
- maintain and pay the premium on an insurance policy in respect of the officer; and
- provide the officer with access to board papers and other documents provided or available to the officer as an officer of the Company and its subsidiaries.

The Group has paid premiums for Directors and officers' liability insurance with respect to the Directors, company secretary and senior management as permitted under the Corporations Act 2001. The terms of the policy prohibit disclosure of the nature of the liabilities covered and the premiums payable under the policy.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor of the Company or any of its controlled entities.

## 13. Rounding of Amounts to Nearest Thousand Dollars

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that Class Order.

## 14. Auditor

Johnston Rorke continues in office in accordance with section 327 of the Corporations Act 2001.

The Company may decide to employ Johnston Rorke on assignments additional to their statutory duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Directors have considered the position and, in accordance with advice received from the Audit & Risk Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* and all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.

Details of the amounts paid or payable to the auditor and its related parties for non-audit services are set out below:

	2010 \$	2009 \$
<b>Non-audit Services</b>		
Tax compliance services	-	860
Other	-	3,200
<b>Total remuneration for non-audit services</b>	-	<b>4,060</b>

The auditor receives remuneration for audit and other services relating to other entities for which Cromwell Property Securities Limited, a controlled entity, acts as responsible entity. The remuneration is disclosed in the relevant entity's financial reports and totalled \$128,000 (2009: \$97,500).

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to this report.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'P. Weightman', is written on a light-colored rectangular background.

P.L. Weightman

Director

Dated this 18th day of August 2010

The Directors  
Cromwell Corporation Limited  
Level 19  
200 Mary Street  
BRISBANE QLD 4000

### Auditor's Independence Declaration

As lead auditor for the audit of Cromwell Corporation Limited for the financial year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cromwell Corporation Limited and the entities it controlled during the period.

**JOHNSTON RORKE**  
Chartered Accountants



**RCN WALKER**  
Partner  
Brisbane, Queensland  
18 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

# Consolidated Statement Of Comprehensive Income

for the  
year ended  
30 June 2010

	Notes	2010 \$'000	2009 \$'000
<b>Revenue and other income</b>			
Rental income and recoverable outgoings		117,262	112,522
Funds management fees		9,283	4,863
Property development sales		-	2,847
Distributions		429	658
Interest		6,265	11,973
Other revenue		524	44
Share of profits of equity accounted entities	15 (b)	3,882	-
Gain on sale of available-for-sale financial assets		3,431	-
Increase in recoverable amount:			
Loans receivable	8 (c)	1,932	-
Fair value net gain from:			
Investments at fair value through profit or loss		836	-
Other income	5 (a)	-	6,217
<b>Total revenue and other income</b>		<b>143,844</b>	<b>139,124</b>
<b>Expenses</b>			
Property expenses and outgoings		19,260	17,545
Property development costs	10	3,487	3,874
Funds management commissions		3,274	385
Employee benefits expense	5 (b)	11,102	10,196
Finance costs	5 (b)	40,529	50,294
Share of losses of equity accounted entities	15 (b)	-	13,231
Loss on sale of investment properties	5 (b)	554	-
Fair value net loss from:			
Interest rate derivatives		1,283	22,479
Investment properties	12	32,146	104,288
Investments at fair value through profit or loss		-	3,107
Decrease in recoverable amount:			
Available-for-sale financial assets		-	3,663
Jointly controlled entity/associates	15 (b)	-	232
Property development inventories/provision	22	6,331	11,463
Loans receivable	8 (c)	-	4,890
Other expenses		5,681	4,530
<b>Total expenses</b>		<b>123,647</b>	<b>250,177</b>
<b>Profit/(loss) before income tax</b>		<b>20,197</b>	<b>(111,053)</b>
Income tax expense	6	1,144	2,458
<b>Profit/(loss)</b>		<b>19,053</b>	<b>(113,511)</b>
<b>Other comprehensive income</b>			
Available-for-sale financial assets	27	-	868
<b>Other comprehensive income, net of tax</b>		<b>-</b>	<b>868</b>
<b>Total comprehensive income/(loss)</b>		<b>19,053</b>	<b>(112,643)</b>
Profit/(loss) is attributable to:			
Company shareholders		(7,650)	(18,971)
Trust unitholders – non-controlling interest		26,703	(94,540)
<b>Profit/(loss)</b>		<b>19,053</b>	<b>(113,511)</b>
Total comprehensive income/(loss) is attributable to:			
Company shareholders		(7,650)	(18,971)
Trust unitholders – non-controlling interest		26,703	(93,672)
<b>Total comprehensive income/(loss)</b>		<b>19,053</b>	<b>(112,643)</b>
Basic earnings/(loss) per company share	29	(1.0¢)	(2.7¢)
Diluted earnings/(loss) per company share	29	(1.0¢)	(2.7¢)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement Of Financial Position

Consolidated Statement Of Financial Position as at 30 June 2010

	Notes	2010 \$'000	2009 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	7	98,469	66,653
Trade and other receivables	8	17,988	23,820
Current tax assets		389	74
Derivative financial instruments	9	1,353	-
Other current assets	11	2,266	2,771
<b>Total current assets</b>		<b>120,465</b>	93,318
<b>Non-Current Assets</b>			
Trade and other receivables	8	30,000	30,062
Inventories	10	4,925	-
Investment properties	12	1,064,100	1,117,175
Available-for-sale financial assets	13	-	3,547
Investments at fair value through profit or loss	14	3,987	2,919
Investments in jointly controlled entity and associates	15	56,802	58,295
Property, plant and equipment	16	1,262	1,272
Deferred tax assets	17	791	1,721
Intangible assets	18	496	514
<b>Total non-current assets</b>		<b>1,162,363</b>	1,215,505
<b>Total assets</b>		<b>1,282,828</b>	1,308,823
<b>Current Liabilities</b>			
Trade and other payables	19	11,933	16,424
Borrowings	20	29,232	81,201
Dividends/distributions payable	21	16,157	10,546
Derivative financial instruments	9	3,626	3,112
Provisions	22	6,022	7,804
Other current liabilities	23	6,618	8,131
<b>Total current liabilities</b>		<b>73,588</b>	127,218
<b>Non-Current Liabilities</b>			
Borrowings	20	637,354	641,647
Provisions	22	479	365
<b>Total non-current liabilities</b>		<b>637,833</b>	642,012
<b>Total liabilities</b>		<b>711,421</b>	769,230
<b>Net assets</b>		<b>571,407</b>	539,593
<b>Equity attributable to shareholders</b>			
Contributed equity	24	49,197	43,688
Reserves	25	3,595	3,256
Retained earnings/(accumulated losses)	26	(46,021)	(38,371)
<b>Total equity attributable to shareholders</b>		<b>6,771</b>	8,573
<b>Non-controlling Interests</b>			
<b>Equity attributable to unitholders</b>			
Contributed equity	27	599,384	531,853
Reserves	27	-	-
Retained earnings/(accumulated losses)	27	(34,748)	(833)
<b>Total equity attributable to unitholders</b>		<b>564,636</b>	531,020
<b>Total equity attributable to securityholders</b>		<b>571,407</b>	539,593

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statement Of Changes In Equity

for the year ended 30 June 2010

Notes	Attributable to Equity Holders of the Company				Total	Non-controlling Interest (Trust)	Non-controlling Interest (External)	Total Equity
	Con-tributed Equity	Accu-mulated Losses	Avail-able-for-Sale Reserve	Share Based Pay-ments Reserve				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2009</b>	<b>43,688</b>	<b>(38,371)</b>	<b>2,340</b>	<b>916</b>	<b>8,573</b>	<b>531,020</b>	<b>-</b>	<b>539,593</b>
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>(7,650)</b>	<b>-</b>	<b>-</b>	<b>(7,650)</b>	<b>26,703</b>	<b>-</b>	<b>19,053</b>
Transactions with equity holders in their capacity as equity holders:								
Contributions of equity, net of transaction costs	24	5,459	-	-	5,459	67,531	-	72,990
Dividends/distributions paid/payable	28	-	-	-	-	(60,618)	-	(60,618)
Employee share options	24/25	50	-	339	389	-	-	389
<b>Total transactions with equity holders</b>	<b>5,509</b>	<b>-</b>	<b>-</b>	<b>339</b>	<b>5,848</b>	<b>6,913</b>	<b>-</b>	<b>12,761</b>
<b>Balance at 30 June 2010</b>	<b>49,197</b>	<b>(46,021)</b>	<b>2,340</b>	<b>1,255</b>	<b>6,771</b>	<b>564,636</b>	<b>-</b>	<b>571,407</b>
<b>Balance at 1 July 2008</b>	43,644	(18,800)	2,340	683	27,867	687,969	(600)	715,236
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>(18,971)</b>	<b>-</b>	<b>-</b>	<b>(18,971)</b>	<b>(93,672)</b>	<b>-</b>	<b>(112,643)</b>
Transactions with equity holders in their capacity as equity holders:								
Dividends/distributions paid/payable	28	-	-	-	-	(63,277)	-	(63,277)
Contributions of equity	24	44	-	-	44	-	-	44
Transfer from non-controlling interest	26	-	(600)	-	(600)	-	600	-
Employee share options	24/25	-	-	233	233	-	-	233
<b>Total transactions with equity holders</b>	<b>44</b>	<b>(600)</b>	<b>-</b>	<b>233</b>	<b>(323)</b>	<b>(63,277)</b>	<b>600</b>	<b>(63,000)</b>
<b>Balance at 30 June 2009</b>	<b>43,688</b>	<b>(38,371)</b>	<b>2,340</b>	<b>916</b>	<b>8,573</b>	<b>531,020</b>	<b>-</b>	<b>539,593</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement Of Cash Flows

for the  
year ended  
30 June 2010

	Notes	2010 \$'000	2009 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts in the course of operations		147,974	132,500
Payments in the course of operations		(56,159)	(44,114)
Distributions received		7,226	8,739
Interest received		4,646	12,942
Finance costs paid		(39,133)	(48,031)
Income tax paid		(521)	(2,605)
<b>Net cash provided by operating activities</b>	30	<b>64,033</b>	59,431
<b>Cash Flows From Investing Activities</b>			
Payments for investment properties		(11,051)	(15,480)
Proceeds from sale of investment properties		21,574	-
Payments for property, plant and equipment		(253)	(37,489)
Payments for investment in associate		-	(237)
Payments for controlled entity, net of cash acquired	38	(226)	-
Payments of property development provision		(8,217)	-
Proceeds from other financial assets		-	25,700
Proceeds from sale of available-for-sale financial assets		6,978	-
Payments for investments at fair value through profit or loss		(2,599)	(2,411)
Proceeds from sale of investments at fair value through profit or loss		2,367	1,500
Payments for software and other intangible assets		(288)	(362)
Loans to related entities		(26,926)	(5,062)
Repayment of loans by related entities		26,476	-
Loans to other persons		(131)	(219)
Repayment of loans by other persons		1,791	-
Refund of transaction costs on merger		-	5,284
<b>Net cash provided by/(used in) investing activities</b>		<b>9,495</b>	(28,776)
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings		-	538,100
Repayment of borrowings		(56,988)	(437,356)
Payment of loan transaction costs		(1,143)	(2,759)
Proceeds from issue of treasury shares/securities		50	44
Proceeds from issue of stapled securities		73,324	-
Equity issue transaction costs		(342)	-
Payment of dividends/distributions		(55,007)	(70,314)
Payment for derivative financial instruments		(1,606)	-
<b>Net cash provided by/(used in) financing activities</b>		<b>(41,712)</b>	27,715
<b>Net increase in cash and cash equivalents</b>		<b>31,816</b>	58,370
Cash and cash equivalents at 1 July		66,653	8,283
<b>Cash and cash equivalents at 30 June</b>	7	<b>98,469</b>	66,653

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## Notes to the Financial Statements

for the  
year ended  
30 June 2010

### 1. Summary of Significant Accounting Policies

Cromwell Group was formed by the stapling of Cromwell Corporation Limited ('the Company') and Cromwell Diversified Property Trust ('the Trust'). Cromwell Group is also defined as 'the Group'.

The Group was established for the purpose of facilitating a joint quotation of the Company and the Trust on the Australian Securities Exchange. The constitutions of the Trust and the Company ensure that, for so long as the two entities remain jointly quoted, the number of units in the Trust and the number of shares in the Company shall be equal and the unitholders and shareholders are identical. Both the Responsible Entity of the Trust and the Company must at all times act in the best interests of the Group.

To account for the stapling, Australian Accounting Standards requires an acquirer (Cromwell Corporation Limited) to be identified and an acquisition to be recognised. The net assets and net profit of the acquiree (the Trust and its controlled entities) are recognised as minority interest as they are not owned by the acquirer in the stapling agreement.

The stapling arrangement will cease upon the earliest of either the winding up of the Company or the Trust.

The financial statements relate to the Group as defined above. As a result of changes to the Corporations Act 2001 separate financial statements of Cromwell Corporation Limited as an individual entity (parent entity) are no longer presented. Limited financial information for the Cromwell Corporation Limited, as an individual entity, is disclosed in note 34 and has been prepared on the same basis as the consolidated financial statements.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

#### Compliance with IFRS

The financial report complies with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

#### Historical cost convention

The financial report is prepared on the historical cost basis except for the following:

- investment properties are measured at fair value
- derivative financial instruments are measured at fair value
- available-for-sale financial assets and investments at fair value through profit or loss are measured at fair value.

The methods used to measure fair values are discussed further below.

#### Functional and presentation currency

The financial report is presented in Australian dollars, which is the functional currency of the Group.

#### Changes in accounting policies

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current period.

#### Presentation of financial statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- The replacement of the income statement with a statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of "other comprehensive income". In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- The adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- Other statements are renamed in accordance with the Standard.

## Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker with the objective of making decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Type or class of customer for the products and services;
- Methods used to distribute the products and services; and if applicable
- Nature of the regulatory environment.

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaced AASB 114 Segment Reporting. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in the same number of reportable segments being presented but certain assets and liabilities, and their associated income and expenses, have now been allocated to their relevant segments.

## Investment property

AASB 140 (revised) requires property that is being constructed or developed for future use as investment property be accounted for under AASB 140 *Investment Property*. Such property was previously accounted for under AASB 116 Property, Plant and Equipment under the cost model. Under AASB 140 *Investment Property*, property under construction is measured under the fair value model unless fair value cannot be reliably determined, in which case, it is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

The Group has applied these changes from 1 July 2009. Investment properties under construction previously classified as property, plant and equipment and measured at cost will now be measured at fair value and classified as investment properties. On adoption of the revised standard at 1 July 2009 the Group had no properties under construction recognised as property, plant and equipment and the change in accounting policy resulted in no transfers being recognised by the Group.

## AASB 3 Business Combinations

The Standard (as revised) requires that the consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred. Refer to note 1 (n).

## AASB 7 Financial Instruments: Disclosures

Amendments to AASB 7 *Financial Instruments: Disclosures* requires disclosure of financial instruments measured at fair value to be based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements. Refer to note 4(d).

## (b) Principles of consolidation

### Stapling

The stapling of the Company and the Trust was approved at separate meetings of the respective shareholders and unitholders on 6 December 2006. Following approval of the stapling, shares in the Company and units in the Trust were stapled to one another and are quoted as a single security on the Australian Securities Exchange.

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and the Trust, the Company is identified as having acquired control over the assets of the Trust. To recognise the in-substance acquisition, the following accounting principles have been applied:

- (1) no goodwill is recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;
- (2) the equity issued by the Company to unitholders to give effect to the transaction is recognised at the dollar value of the consideration payable by the unitholders. This is because the issue of shares by the Company was administrative in nature rather than for the purposes of the Company acquiring an ownership interest in the Trust; and

- (3) the issued units of the Trust are not owned by the Company and are presented as non-controlling interests in the Group notwithstanding that the unitholders are also the shareholders by virtue of the stapling arrangement. Accordingly, the equity in the net assets of the Trust and the profit/(loss) arising from these net assets have been separately identified in the statement of comprehensive income and statement of financial position.

### **Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the business combinations by the Group (refer to note 1(n)).

Inter-entity transactions, balances and unrealised gains on transactions between the Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in note 35 to the consolidated financial statements.

### **Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a holding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the Group's financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates are recognised in the Group's financial statements as a reduction of the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **Joint venture entities**

The interest in a joint venture entity is accounted for in the Group's financial statements using the equity method. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in profit or loss, and the share of movements in reserves is recognised in reserves.

Profits or losses on transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

### **Jointly controlled assets**

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

## **(c) Revenue recognition**

### **Rental revenue**

Rental revenue from investment property is recognised on a straight-line basis over the lease term. Rental revenue not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance, as rent in advance (unearned income). Lease incentives granted are considered an integral part of the total rental revenue and are recognised as a reduction in rental income over the term of the lease, on a straight-line basis. Contingent rents based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases, are only recognised when contractually due.

## **Funds management revenue**

Acquisition and capital raising fee revenue is recognised at settlement of the relevant property or proportionately as the equity interests are issued/sold to external investors as appropriate. Management fee revenue is recognised on a proportional basis over time as services are performed.

## **Other**

Property development sales revenue is recognised on settlement of the relevant property.

Interest revenue is recognised as it accrues using the effective interest method.

Gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the profit or loss in the year of disposal. Where revenue is obtained from the sale of properties, it is recognised when the significant risks and rewards have transferred to the buyer, which is normally when legal title passes to the buyer.

## **(d) Income tax**

Under current income tax legislation the Trust is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if the properties were sold is not accounted for in this report.

The Group's income tax expense for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

## **Tax consolidation**

The Company and its wholly-owned entities (this excludes the Trust and its controlled entities) have formed a tax-consolidated group with effect from 1 July 2003 and are, therefore, taxed as a single entity from that date. The head entity within the tax-consolidated group is Cromwell Corporation Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group, using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts referred to in the following section. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustment to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, is recognised by the head entity only.

## **Nature of tax funding arrangements and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

#### **(e) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **(f) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment of receivables. Receivables relating to operating leases of investment properties are due on the first day of each month, payable in advance. Other receivables are usually due for settlement no more than 90 days from the date of recognition.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term trade and other receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit or loss.

#### **(g) Inventories**

Development properties held for resale are stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of development properties held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the properties had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

#### **(h) Investment properties**

Investment property is property which is held either to earn income or for capital appreciation or both. Investment property also includes properties that are under construction for future use as investment properties. Initially, investment property is measured at cost including transaction costs. The investment property is subsequently measured at fair value, with any change therein recognised in profit or loss. As part of the process of determining fair value, an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values individual properties at least every two years on a rotation basis or on a more regular basis if considered appropriate and as determined by management in accordance with the valuation policy of the Group. In addition, the Group has utilised internal valuation processes for determining fair value at balance date.

These valuation processes are taken into consideration when determining the fair value of the investment properties. The fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the capitalisation of net income and the discounting of future cash flows to their present value. These methods incorporate assumptions of future rental income and costs, appropriate capitalisation and discount rates and also consider market evidence of transaction prices for similar investment properties.

Valuations reflect, where appropriate:

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness;
- the allocation of maintenance and other operating cost responsibilities between lessor and lessee; and
- the remaining economic life of the property.

Further information on assumptions underlying management's assessment of fair value is contained in note 2.

## (i) Investments and other financial assets

The Group classifies its investments as either financial assets at fair value through profit or loss or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss also includes financial assets which upon initial recognition are designated as such.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date.

Regular purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in profit or loss in the period in which they arise. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains or losses from investment securities.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through profit or loss.

## (j) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate cost of assets, net of their residual values, over their estimated useful lives, as follows:

Class	Rate
Plant and equipment	10-67%
Furniture and fittings	18%
Leased plant and equipment	8-37%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(I)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### **(k) Intangible assets**

Software assets have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of software over its estimated useful lives of 3 years on average.

### **(l) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

At each reporting date, and whenever events or changes in circumstances occur, the Group assesses whether there is any indication that any other asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(m) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade and other receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### **(n) Business combinations**

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired are recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

#### **(o) Lease incentives**

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including up front cash payments, rent free periods, or a contribution to certain lessee costs such as fit out costs or relocation costs. They are recognised as an asset in the statement of financial position as a component of the carrying amount of investment property and amortised over the lease period as a reduction of rental income.

#### **(p) Initial direct leasing costs**

Initial direct leasing costs incurred by the Group in negotiating and arranging operating leases are recognised as an asset in the statement of financial position as a component of the carrying amount of investment property and are amortised as an expense on a straight line basis over the lease term.

#### **(q) Repairs and maintenance**

Repairs and maintenance costs and minor renewals are charged as expenses when incurred.

#### **(r) Derivative financial instruments**

The Group is exposed to changes in interest rates and uses interest rate derivatives to hedge these risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Group enters into interest rate swap agreements that are used to convert certain variable interest rate borrowings to fixed interest rates or vice versa. The derivatives are entered into with the objective of hedging the risk of adverse interest rate fluctuations. While the Group has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting and gains or losses arising from changes in fair value are recognised immediately in profit or loss.

#### **(s) Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the year and which are unpaid. The amounts are usually unsecured and paid within 30-60 days of recognition.

#### **(t) Borrowings and borrowing costs**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Under this method fees, costs, discounts and premiums directly related to the financial liability are spread over its expected life. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset the amount of borrowing costs capitalised is the actual borrowing costs incurred on that borrowing net of any interest earned on those borrowings. Where funds are borrowed generally the capitalisation rate used to determine the amount of borrowing costs to capitalise is the weighted average interest rate applicable to the Group's outstanding borrowings during the year.

#### **(u) Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less any cumulative amortisation.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

#### **(v) Provisions**

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

## **(w) Employee benefits**

### **Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### **Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **Superannuation**

Contributions are made by the Group to defined contribution superannuation funds. Contributions are charged as expenses as they become payable.

### **Share-based payments**

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

### **Bonus plans**

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

## **(x) Leases (as lessee)**

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The depreciable assets acquired under finance leases are depreciated over the estimated useful life of the asset. Where there is no reasonable certainty that the lessee will obtain ownership, the asset is depreciated over the shorter of the lease term and the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## **(y) Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter. The amortisation rate for leasehold improvements is set out in note 1(j).

## (z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity. In the Company's financial statements, the transactions of the Employee Share Ownership Plan (ESOP) are treated as being executed directly by the Company. Accordingly, shares held by the ESOP are recognised as treasury shares and deducted from equity.

## (aa) Dividends/distributions

Provision is made for the amount of any dividend/distribution declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at balance date.

## (ab) Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## (ac) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## (ad) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## (ae) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## (af) New accounting standards and interpretations

Relevant accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the year are as follows:

Standard/Interpretation	Application date of standard	Application date for the Group
AASB 9 <i>Financial Instruments</i> and consequential amendments to other accounting standards resulting from its issue	1 Jan 2013	1 Jul 2013
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 Jan 2010	1 Jul 2010
AASB 2009-8 <i>Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions</i>	1 Jan 2010	1 Jul 2010
AASB 2010-3 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 Jul 2010	1 Jul 2010
AASB 2010-4 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 Jan 2011	1 Jul 2011

The Directors anticipate that the adoption of these Standards and Interpretations in future years may have the following impacts:

AASB 9 – This revised standard provides guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured

at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity but upon realisation, those accumulated changes in value are not recycled to the profit or loss. Changes in the fair value of all other financial assets carried at fair value are reported in the statement of comprehensive income. The Group is yet to assess the impact of the new standard.

AASB 2009-5 – These amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments are not expected to have a significant impact on the financial statements.

AASB 2009-8 – Introduces amendments to incorporate the requirements previously included in Interpretation 8 and Interpretation 11. The amendments require an entity that receives goods and services in share-based payment arrangements to account for those goods or services no matter which entity in the Group settles the transaction and no matter whether the transaction is settled in shares or cash. The amendments are not expected to have a significant impact on the financial statements.

AASB 2010-3 and AASB 2010-4 – These amendments introduce various changes to IFRS. The directors have not yet assessed the impact of the amendments, if any.

## 2. Critical accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are:

### Estimates of fair value of investment properties

The Group has investment properties with a carrying amount of approximately \$1,064,100,000 (2009: \$1,117,175,000) representing estimated fair value at balance date. In addition, the carrying amount of the Group's investments in jointly controlled entity/associate of approximately \$56,802,000 (2009: \$58,295,000) also reflect underlying investment properties of the jointly controlled entity/associate carried at fair value. These investment properties represent a significant proportion of the total assets of the Group.

Fair value is determined within a range of reasonable estimates utilising both capitalisation of net market income and discounted future cash flow methodologies and comparing the results to market sales evidence.

The best evidence of fair value is considered to be current prices in an active market for similar properties, however global economic and financial turmoil has had an impact on many classes of real estate, including commercial real estate in Australia. The most significant impact has been a reduction in the availability of capital (debt and equity) for real estate assets. This reduction in available capital has led to falls in asset values and a relatively low level of transactions in most markets, although there have been signs in recent times of more stability in pricing and some increases in transactional levels. Where sufficient market information is not available, or to supplement this information, management considers other relevant information including:

- Current prices for properties of a different nature, condition or location, adjusted to reflect those differences;
- Recent prices of similar properties in a less active market, with adjustments to reflect changes in economic conditions or other factors;
- Capitalised income calculations based on an assessment of current net market income based on current leases in place for that property or other similar properties, a capitalisation rate taking into account market evidence for similar properties and adjustment for short term vacancy or lease expiries, incentive costs and capital expenditure requirements; and
- Discounted cash flow forecasts including estimates of future cash flows based on current leases in place for that property, historical operating expenses, reasonable estimates of current and future rents and operating expenses based on external and internal assessments and using discount rates that appropriately reflect the degree of uncertainty and timing inherent in current and future cash flows.

The fair values adopted for investment properties have been supported by a combination of independent external valuations and detailed internal valuations, which are considered to reflect market conditions at balance date.

Key factors which impact assessments of value at each balance date include capitalisation rates, vacancy rates and weighted average lease terms. Details of these factors at each balance date were as follows:

	% Value of Portfolio by Sector		Weighted Average Cap Rate		Weighted Average Lease Term		Occupancy	
	2010	2009	2010	2009	2010	2009	2010	2009
Commercial	85%	86%	8.47%	8.23%	5.1yrs	5.4 yrs	94.8%	99.6%
Industrial	11%	11%	9.58%	9.07%	2.8yrs	3.1 yrs	100.0%	100.0%
Retail/Entertainment	4%	3%	9.27%	10.45%	4.3yrs	5.1 yrs	100.0%	100.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>8.62%</b>	<b>8.40%</b>	<b>4.8yrs</b>	<b>5.1 yrs</b>	<b>95.6%</b>	<b>99.8%</b>

Estimates of fair value take into account factors and market conditions evident at balance date. Uncertainty and changes in global market conditions in the future may impact fair values in the future.

### Estimates of fair value of interest rate derivatives

The fair value of interest rate derivatives has been determined using a pricing model based on discounted cash flow analysis and incorporating assumptions supported by market data at balance date including market expectations of future interest rates and discount rates, and taking into account estimates prepared by external counterparties. Whilst certain derivatives may not be quoted on an active market, management have determined a value for those derivatives using market data adjusted for any specific features of the derivatives. All counterparties to interest rate derivatives are Australian financial institutions.

### Estimates of property development obligations

The provision for property development obligations involves the assessment of the realisation values of the properties held by Cromwell Property Fund (CPF) which are leased to the Group through property development agreements. These values are determined within a range of reasonable estimates based on either independent valuations or current prices for similar properties. See further commentary in note 22.

## 3. Capital Risk Management

The Group's capital management strategy seeks to maximise securityholder value through optimising the level and use of capital resources and the mix of debt and equity funding.

The Group's capital management objectives are to:

- ensure that Group entities comply with capital and dividend/distribution requirements of their constitutions and/or trust deeds;
- ensure sufficient capital resources to support the Group's operational requirements;
- continue to support the Group's creditworthiness;
- comply with capital requirements of relevant regulatory authorities; and
- safeguard the Group's ability to continue as a going concern.

The Group monitors the adequacy of its capital requirements, cost of capital and gearing (i.e. debt/equity mix) as part of its overall strategic plan. The Group's capital structure is continuously reviewed to ensure:

- sufficient funds and financing facilities are available, on a cost effective basis, to implement the Group's strategies; and
- dividends/distributions to members are made within the stated policy.

The Group is able to alter its capital mix by:

- issuing new stapled securities;
- activating its dividend/distribution reinvestment plan;
- adjusting the amount of dividends/distributions paid to members;
- activating its security buyback program; and
- selling assets to reduce borrowings.

The Group also protects its equity in assets by taking out insurance cover with creditworthy insurers.

Cromwell Property Securities Limited ("CPS") holds an Australian Financial Services Licence (AFSL) and acts as responsible entity for managed investment schemes, other than Cromwell Hybrid Property Fund, managed by the Group. The AFSL requires CPS to maintain net tangible assets of \$5 million. As such CPS is restricted from paying dividends to the parent entity that would breach its licence conditions and holds cash as part of its required minimum net tangible assets (see Note 30). CPS monitors its net tangible assets on an ongoing basis to ensure it continues to meet its licence requirements. CPS complied with its AFSL requirements during 2010 and 2009.

Cromwell Funds Management Limited ("CFM") holds an Australian Financial Services Licence (AFSL) and acts as responsible entity for Cromwell Hybrid Property Fund. The AFSL requires CFM to maintain net tangible assets of \$50,000. As such CFM is restricted from paying dividends to the parent entity that would breach its licence conditions and holds cash as part of its required minimum net tangible assets (see Note 30). CFM monitors its net tangible assets on an ongoing basis to ensure it continues to meet its licence requirements. CFM complied with its AFSL requirements during 2010 and 2009.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by adjusted assets. Net debt is calculated as total borrowings less cash and cash equivalents and restricted cash. Adjusted assets are calculated as total assets less cash and cash equivalents, restricted cash and intangible assets. The gearing ratios at each balance date were as follows:

	2010 \$'000	2009 \$'000
Total borrowings	666,586	722,848
Less: cash and cash equivalents	98,469	66,653
<b>Net debt</b>	<b>568,117</b>	656,195
Total assets	1,282,826	1,308,823
Less: intangible assets and deferred tax assets	1,285	2,235
Less: cash and cash equivalents	98,469	66,653
<b>Adjusted assets</b>	<b>1,183,072</b>	1,239,935
<b>Gearing ratio</b>	<b>48%</b>	53%

#### 4. Financial Risk Management

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk (interest rate risk and price risk). The Group's overall risk management program focuses on managing these risks and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate derivatives to hedge certain risk exposures. The Group seeks to deal only with creditworthy counterparties. Liquidity risk is monitored through the use of future rolling cash flow forecasts.

The Group's management of treasury activities is centralised and governed by policies approved by the Directors who monitor the operating compliance and performance as required. The Group has policies for overall risk management as well as policies covering specific areas such as identifying risk exposure, analysing and deciding upon strategies, performance measurement, the segregation of duties and other controls around the treasury and cash management functions.

The Group holds the following financial instruments:

	2010 \$'000	2009 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents <sup>(1)</sup>	98,469	66,653
Trade and other receivables <sup>(1)</sup>	47,988	53,882
Derivative financial instruments <sup>(2)</sup>	1,353	-
Available-for-sale financial assets	-	3,547
Investments at fair value through profit or loss <sup>(3)</sup>	3,987	2,919
<b>Total financial assets</b>	<b>151,797</b>	127,001
<b>Financial Liabilities</b>		
Trade and other payables <sup>(4)</sup>	11,924	16,424
Derivative financial instruments <sup>(2)</sup>	3,626	3,112
Borrowings <sup>(4)</sup>	666,586	722,848
Dividends/distributions payable <sup>(4)</sup>	16,167	10,546
<b>Total financial liabilities</b>	<b>698,303</b>	752,930

(1) Loans and receivables

(2) At fair value – held for trading

(3) At fair value – designated

(4) At amortised cost

The carrying value of loans and receivables and financial liabilities at amortised cost are assumed to approximate their fair value due to either their short term nature or their terms and conditions including interest receivable/payable at variable rates.

### (a) Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations under a financial instrument and result in a financial loss to the Group. The Group has exposure to credit risk on all financial assets included in the statement of financial position except available-for-sale financial assets and investments at fair value through profit or loss.

The Group manages this risk by:

- establishing credit limits for customers and managing exposure to individual entities;
- monitoring the credit quality of all financial assets in order to identify any potential adverse changes in credit quality;
- derivative counterparties and cash transactions, when utilised, are transacted with high credit quality financial institutions;
- providing loans as an investment in associates where the Group is comfortable with the underlying exposure;
- regularly monitoring loans and receivables on an ongoing basis; and
- regularly monitoring the performance of associates on an ongoing basis.

The maximum exposure to credit risk at balance date is the carrying amount of financial assets recognised in the statement of financial position of the Group. The Group holds no significant collateral as security. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Cash is held with Australian financial institutions. Interest rate derivative counterparties are all Australian financial institutions.

The ageing analysis of receivables past due at balance date but not impaired is as follows:

	2010 \$'000	2009 \$'000
1 to 3 months*	1,267	1,358
3 to 6 months*	352	-
Over 6 months*	625	2,847
	<b>2,244</b>	<b>4,205</b>

\* Of the amounts above \$1,369,000 (2009: \$2,847,000) relates to the Cromwell Property Fund (refer note 8)

The Group has amounts owing from Cromwell Property Fund of \$42,652,000 (2009: \$48,405,000) (refer note 8).

### (b) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash reserves and finance facilities to meet the ongoing operational requirements of the business. It is the Group's policy to maintain sufficient funds in cash and cash equivalents to meet expected near term operational requirements. The Group prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow. The Group monitors the maturity profile of borrowings and puts in place strategies designed to ensure that all maturing borrowings are refinanced in the required timeframes.

The current weighted average debt maturity of the Group is 1.9 years (2009: 2.8 years).

Contractual maturity of financial liabilities (borrowings and payables), including interest thereon, is as follows:

	2010 \$'000	2009 \$'000
Due within one year	98,461	141,313
Due between one and five years	679,484	597,481
Due after five years	2,470	121,679
	<b>780,415</b>	<b>860,473</b>

## (c) Market Risk

### (i) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group classified on the balance sheet as available-for-sale financial assets and investments at fair value through profit or loss. The Group is not exposed to commodity price risk. The majority of the Group's equity investments are publicly traded and are included in the ASX All Ordinaries index.

#### Group sensitivity

Based on the financial instruments held at balance date, had the ASX All Ordinaries index increased/decreased by 20% (2009: 20%) with all other variables held constant and all the Group's equity instruments moved in correlation with the index, the impact on the Group's profit and equity for the year would have been \$794,000 (2009: \$1,294,000) higher/lower.

### (ii) Interest rate risk

The Group's interest-rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group's policy is to effectively maintain hedging arrangements on not less than 50% of its borrowings. At balance date, 75% (2009: 37%) of the Group's borrowings were effectively hedged.

The Group manages its cash flow interest-rate risk by using interest rate derivatives. Such interest rate derivatives have the economic effect of converting borrowings from floating rates to fixed or a limited range of rates. Generally, the Group raises long term borrowings at floating rates and hedges a portion of them into fixed or capped rates. Under the interest-rate derivatives, the Group agrees with other counter parties to exchange, at specified intervals (usually 30 days), the difference between contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The fixed or limited interest rates range between 4.75% and 5.95% (2009: 4.88% and 5.95%) and the variable rates are generally based on the 30 day bank bill swap bid rate which at balance date was 4.80% (2009: 3.20%). At balance date, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2010 \$'000	2009 \$'000
Less than 1 year	184,661	71,060
1-2 years	200,000	76,745
2-3 years	-	-
3-4 years	-	-
4-5 years	-	-
Greater than 5 years	118,180	118,180
	<b>502,841</b>	265,985

The Group's interest rate derivatives do not meet the accounting requirements to qualify for hedge accounting treatment. Gains or losses arising from changes in fair value have been reflected in the profit or loss.

Information on borrowings, the maturity profile of borrowings including interest thereon and the effective weighted average interest rate by maturity periods is set out in Note 20.

#### Group sensitivity

At balance date, if interest rates for all relevant time periods had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit would have been \$6,579,000 higher/lower (2009 – change of 100 bps: \$3,752,000 higher/lower), mainly as a result of increase/decrease in the fair value of interest rate derivatives. Equity would have been \$6,579,000 higher/lower (2009: \$3,752,000 higher/lower) mainly as a result of an increase/decrease in the fair value of interest rate derivatives.

#### (d) Fair Value Estimation

The table below analyses financial instruments carried at fair value, by the source of measurement inputs. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the year ended 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Assets</b>				
Derivative financial instruments	-	1,353	-	1,353
Investments at fair value through profit or loss	3,987	-	-	3,987
	<b>3,987</b>	<b>1,353</b>	-	<b>5,340</b>
<b>Financial Liabilities</b>				
Derivative financial instruments	-	3,626	-	3,626
	-	<b>3,626</b>	-	<b>3,626</b>

## 5. Profit/(Loss) from Operations

	2010 \$'000	2009 \$'000
Profit/(Loss) before income tax includes the following specific items:		
<b>(a) Other Income</b>		
Refund of stamp duty paid on merger	-	5,284
Other	-	933
<b>Other income</b>	-	6,217
<b>(b) Expense Disclosures</b>		
<b>Premises rental – minimum lease payments</b>	<b>178</b>	149
<b>Loss on Sale of Investment Properties:</b>		
Net proceeds from sale of investment properties	21,574	-
Carrying value of investment properties sold and other costs of sale	(22,128)	-
<b>Loss on sale of investment properties</b>	<b>(554)</b>	-
<b>Employee Benefits Expense:</b>		
Wages and salaries including on costs	9,837	9,226
Contributions to defined contribution superannuation plans	652	562
Equity settled share-based payments	339	233
Increase in liability for long service and annual leave	274	175
<b>Employee benefits expense</b>	<b>11,102</b>	10,196
<b>Finance Costs:</b>		
Total interest	38,660	50,461
Less: interest capitalised	-	(1,582)
Interest expense	38,660	48,879
Amortisation of loan transaction costs	1,869	1,415
<b>Finance costs</b>	<b>40,529</b>	50,294

	2010 \$'000	2009 \$'000
<b>Depreciation/Amortisation:</b>		
Depreciation of plant and equipment	260	251
Amortisation of intangibles	291	294
<b>Depreciation/Amortisation</b>	<b>551</b>	<b>545</b>

## 6. Income Tax

### (a) Income tax expense

Current tax	494	964
Deferred tax	(15)	(1,465)
Prior year tax losses written off	652	2,983
Adjustment in relation to prior periods	13	(24)
<b>Income tax expense</b>	<b>1,144</b>	<b>2,458</b>

### (b) Numerical reconciliation of income tax expense to prima facie tax

Profit/(loss) before income tax	20,197	(111,053)
Tax at the Australian tax rate of 30% (2009: 30%)	6,059	(33,316)
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:		
Non-taxable trust (income)/loss	(8,011)	29,067
Non-deductible expenses	121	155
Loan recovery	(163)	-
Non-deductible property development costs/impairment	1,329	3,593
Assessable income for tax	1,143	-
Losses (recognised)/written off (note 17)	653	2,983
Adjustment in relation to prior periods	13	(24)
<b>Income tax expense</b>	<b>1,144</b>	<b>2,458</b>

### (c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

<b>Tax losses</b>	<b>16,213</b>	<b>17,009</b>
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The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of tax losses (both revenue and capital) because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from the deferred tax assets. All unused tax losses were incurred by Australian entities.

### (d) Tax consolidation

Refer note 1(d) for details regarding the relevance of the tax consolidation system to the consolidated entity, the tax funding arrangements and other information.

No amounts were recognised during the year (2009: \$nil) as tax consolidation contributions by, or distributions to, equity participants.

## 7. Cash and Cash Equivalents

	2010 \$'000	2009 \$'000
Cash at bank	33,469	66,653
Deposits	65,000	-
<b>Cash and cash equivalents</b>	<b>98,469</b>	<b>66,653</b>

Cash at bank is held with Australian financial institutions earns variable interest at market rates with a weighted average of 4.57% at balance date (2009: 3.85%). Deposits held with Australian financial institutions at 30 June 2010 earned variable interest at market rates with a weighted average of 6.01%.

## 8. Trade and Other Receivables

### Current Assets

Trade debtors	5,004	3,966
Other receivables – jointly controlled entity/associates	1,628	4,802
Loans:		
Associate – CPF	11,024	15,052
Associate – Phoenix Portfolios Pty Ltd	62	-
Other entities	270	4,890
Provision for impairment of receivables	-	(4,890)
<b>Trade and other receivables – current</b>	<b>17,988</b>	<b>23,820</b>

### Non-Current Assets

Loans:		
Associate – CPF	30,000	30,000
Associate – Phoenix Portfolios Pty Ltd	-	62
<b>Trade and other receivables – non-current</b>	<b>30,000</b>	<b>30,062</b>

Trade debtors mainly comprises amounts owing by tenants of the Group's investment properties and recoverable costs owing by external managed investment schemes. These amounts are usually non-interest bearing, unsecured and generally payable on no more than 30 day terms.

Other receivables – jointly controlled entity/associates mainly comprises interest owing by the Cromwell Property Fund ("CPF") on its \$30,000,000 loan facility (refer below). As at 30 June 2009, other receivables mainly comprised distributions receivable and \$2,847,000 owing by CPF in relation to the sale of property development inventory. All amounts owing at 30 June 2009 were collected by the Group during the current year. These receivables are payable in cash.

### (a) Loans – associates

#### Cromwell Property Fund

In 2008 the Group provided CPF with a \$30,000,000 loan facility. During the current year the Group advanced \$nil (2009: \$5,000,000) to CPF under the facility. The loan is unsecured, repayable in cash on 30 June 2010 and earns interest at a floating rate plus margin of 0.7% capped at 8.00%, which was 5.43% (2009: 3.91%) at balance date. Since balance date, CPF repaid \$10,200,000 of the loan. Repayment of the balance (\$19,800,000) has been extended to 30 June 2012 – see note 41.

A subsidiary of the Company also provided loans of \$15,052,000 to CPF during the 2008 year. Further advances of \$450,000 were made during the year (2009: \$nil). During the current year the loan was reduced by \$4,478,000 as part of the acquisition of Cromwell Altona Trust (refer note 38). The loans are unsecured, at call, repayable in cash, with no fixed repayment terms and earn interest at a variable rate (BBSW) plus a margin of 1.50%, which was 6.23% (2009: 4.71%) at balance date.

#### Phoenix Portfolios Pty Ltd

During the 2009 year the Group made a 50% investment in Phoenix Portfolios Pty Ltd and provided a loan of \$62,000. The loan is unsecured, repayable in cash in 2011 and earns interest at a variable rate (BBSY) plus a margin of 3.00%, which was 7.73% (2009: 6.25%) at balance date.

### (b) Past due but not impaired receivables

At balance date, trade and other receivables of \$2,244,000 (2009: \$4,205,000) were past due but not impaired. These relate to a number of tenants for whom there is no recent history of default of \$875,000 (2009: \$1,358,000) and CPF of \$1,369,000 (2009: \$2,847,000).

### (c) Impaired receivables

At 30 June 2010 the Group had a loan to a property developer of \$270,000 (2009: \$4,890,000). At 30 June 2009 the loan was deemed fully impaired and was written down accordingly. The impairment was based on an estimate of the net proceeds expected to be recovered on the sale of the collateral property. During the 2010 financial year the Group reversed the impairment provision by \$1,932,000 based on repayments received in 2010 of \$1,662,000 and the expected recovery of the loan of \$270,000 in 2011.

## 9. Derivative Financial Instruments

	2010 \$'000	2009 \$'000
<b>Current Assets</b>		
Interest rate derivatives – at fair value	1,353	-
<b>Current liabilities</b>		
Interest rate derivatives – at fair value	3,626	3,112

## 10. Inventories

Land held for development and resale	4,925	-
<b>Inventories</b>	<b>4,925</b>	-

### Movement in inventories

Balance at 1 July	-	4,030
Land acquired (see note 38)	4,800	-
Project costs capitalised	125	454
Impairment – transferred to profit or loss	-	(4,484)
<b>Balance at 30 June</b>	<b>4,925</b>	-

In 2009 inventories included project holding costs in relation to properties leased from Cromwell Property Fund (CPF) under development agreements. The balance relating to these costs was written off at 31 December 2008 and all subsequent costs have been expensed. During the current year the Group acquired land located at Maidstone Street, Altona, VIC from CPF and terminated the related development agreement. The Group's property development obligations in respect of the remaining two development agreements with CPF are set out in note 22.

## 11. Other Current Assets

<b>Prepayments</b>	<b>2,266</b>	2,771
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## 12. Investment Properties

	2010 \$'000	2009 \$'000
<b>Investment properties at fair value</b>	<b>1,064,100</b>	1,117,175
<b>(a) Movement in investment properties</b>		
Balance at 1 July	1,117,175	1,120,716
Additions at cost		
Transfer from property, plant and equipment (note 16)	-	79,545
Transaction costs	-	55
Improvements	3,542	10,197
Disposals	(22,128)	-
Straight-lining rentals	852	1,716
Lease costs and incentives	2,216	13,537
Amortisation of lease costs and incentives	(5,411)	(4,303)
Net loss from fair value adjustments	(32,146)	(104,288)
<b>Balance at 30 June</b>	<b>1,064,100</b>	1,117,175
<b>(b) Amounts recognised in profit and loss for investment properties</b>		
Rental and outgoings from investment properties	116,090	112,522
Direct operating expense from properties that generated rental income	(21,663)	(17,545)
	<b>94,427</b>	94,977
<b>(c) Assets pledged as security</b>		
Borrowings (refer Note 20) are secured by fixed and floating charges over each investment property plus charges over any building document, lease document, performance bond and bank guarantee in addition to a real property mortgage over each property.		
<b>(d) Leases as a lessor</b>		
The investment properties are generally leased to tenants on long term operating leases with rentals payable monthly. Minimum lease payments under the non-cancellable operating leases of the investment properties not recognised in the financial statements are receivable as follows:		
Within one year	96,247	93,841
Later than one year but not later than five years	305,681	310,616
Later than five years	100,066	164,426
	<b>501,994</b>	568,883

### (e) Valuation basis

Independent valuations of properties were carried out by qualified valuers with relevant experience in the types of property being valued. Independent valuations are mostly carried out at least annually but no later than every two years. The value of investment properties is measured on a fair value basis, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In assessing the value of the investment properties, the independent valuers have considered both discounted cash flow, and capitalisation methodologies. In addition, the Group has utilised similar internal valuation processes for determining fair value where independent valuations are not obtained. Further information on assumptions underlying management's assessment of fair value is contained in note 2.

**(f) Details of investment properties**

	Title	Acquisition Date (1)	Acquisition Price (1) \$'000	Most recent independent valuation date	Independent valuation Amount		Carrying amount		Fair value adjustment	
					2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
200 Mary St, QLD	Freehold	Jun 2001	29,250	Jun 2010	<b>85,500</b>	90,000	<b>85,500</b>	90,000	<b>(5,108)</b>	(10,637)
Terrace Office Park, QLD	Freehold	Jun 1999	13,600	Dec 2009	<b>28,100</b>	33,500	<b>27,500</b>	32,000	<b>(5,351)</b>	(4,552)
Sun Microsystems Building, ACT	Leasehold	Nov 2001	23,550	Jun 2010	<b>34,000</b>	34,000	<b>34,000</b>	34,000	<b>(183)</b>	(360)
Quadrant Building, ACT	Leasehold	Jun 2000	5,800	SOLD	-	9,700	-	9,700	-	(702)
Scrivener Buildings, ACT	Leasehold	Jun 2000	10,750	Jun 2010	<b>10,000</b>	11,000	<b>10,000</b>	11,000	<b>(960)</b>	(1,787)
NQX Distribution Centre, QLD	Freehold	Feb 2003	17,778	Jun 2010	<b>25,750</b>	24,000	<b>25,750</b>	23,400	<b>2,513</b>	(3,847)
Henry Waymouth Centre, SA	Freehold	Apr 2003	30,420	Nov 2009	<b>35,000</b>	40,000	<b>33,500</b>	38,250	<b>(4,752)</b>	(3,785)
Hellman Distribution Centre, VIC	Freehold	Jun 2003	9,700	SOLD	-	8,425	-	8,425	-	(2,736)
Brooklyn Woolstore, VIC	Freehold	Jun 2004	34,000	Nov 2009	<b>35,550</b>	36,500	<b>37,000</b>	37,300	<b>(220)</b>	(3,788)
Village Cinemas, VIC	Freehold	Jun 2004	8,900	Dec 2009	<b>11,000</b>	10,300	<b>11,000</b>	9,800	<b>1,200</b>	(1,201)
Vodafone Call Centre, TAS	Freehold	Jun 2004	15,900	Nov 2009	<b>16,400</b>	12,500	<b>16,400</b>	12,500	<b>3,102</b>	(5,399)
Village Cinema Centre, TAS	Freehold	Jun 2004	16,000	Dec 2009	<b>15,600</b>	14,400	<b>15,750</b>	13,000	<b>2,765</b>	(2,821)
Village Cinemas, TAS	Freehold	Jun 2004	3,500	SOLD	-	3,150	-	3,000	<b>329</b>	(139)
Regent Cinema Centre, NSW	Freehold	Jun 2004	9,900	Dec 2009	<b>12,700</b>	11,900	<b>12,700</b>	10,900	<b>1,799</b>	(1,126)
78 Mallard Way, WA	Freehold	Jun 2004	7,600	Dec 2009	<b>8,400</b>	10,000	<b>8,400</b>	9,800	<b>(1,577)</b>	(2,677)
Elders Woolstore, SA	Freehold	Jun 2004	10,900	Nov 2009	<b>13,900</b>	14,100	<b>13,900</b>	14,100	<b>(184)</b>	(1,340)
700 Collins Street, VIC	Freehold	Dec 2004	133,000	Nov 2009	<b>156,000</b>	167,750	<b>160,000</b>	162,000	<b>(1,382)</b>	(21,648)
Kmart Distribution Centre, VIC	Freehold	Feb 2005	41,000	Dec 2009	<b>33,500</b>	39,000	<b>32,000</b>	37,500	<b>(5,526)</b>	(6,952)
19 National Circuit, ACT	Leasehold	July 2005	35,530	Jun 2010	<b>36,000</b>	33,500	<b>36,000</b>	33,500	<b>2,234</b>	(3,268)
AWB Building, VIC	Freehold	Dec 2005	88,000	Jun 2010	<b>94,500</b>	102,800	<b>94,500</b>	102,800	<b>(8,068)</b>	(7,031)
101 Grenfell St, SA	Freehold	Jan 2006	30,375	Jun 2010	<b>37,200</b>	36,500	<b>37,200</b>	36,500	<b>136</b>	(5,492)
475 Victoria Av, NSW	Freehold	Mar 2006	102,650	Jun 2010	<b>127,500</b>	135,000	<b>127,500</b>	135,000	<b>(5,529)</b>	(7,829)
Synergy, QLD	Freehold	Nov 2008	85,727	Nov 2009	<b>82,000</b>	83,500	<b>78,000</b>	82,700	<b>(4,720)</b>	(8,260)
Tuggeranong Office Park, ACT	Leasehold	Jun 2008	166,025	Jun 2010	<b>167,500</b>	170,000	<b>167,500</b>	170,000	<b>(2,664)</b>	3,089
<b>Total investment properties</b>			<b>929,855</b>		<b>1,066,100</b>	1,131,525	<b>1,064,100</b>	1,117,175	<b>(32,146)</b>	(104,288)

(1) Comprises original acquisition date and price for Cromwell Diversified Property Trust or the relevant Syndicate which was mostly prior to the merger and stapling transactions in December 2006.

### 13. Available-for-sale Financial Assets

	2010 \$'000	2009 \$'000
<b>Listed equity securities at fair value</b>	-	3,547

### 14. Investments at Fair Value Through Profit or Loss

<b>Listed equity securities at fair value</b>	<b>3,987</b>	2,919
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These investments are designated at fair value through profit or loss. Gains and losses are shown in profit or loss.

### 15. Investments in Jointly Controlled Entity and Associates

The Group has investments in a jointly controlled entity, Cromwell TGA Planned Investment ("TGA"), and associates, Cromwell Property Fund ("CPF") and Phoenix Portfolios Pty Ltd ("Phoenix"). These entities were formed in Australia and their principal activities are property investment (TGA and CPF) and investment management (Phoenix).

The reporting dates of the jointly controlled entity and associates are the same as for the Group. The proportion of voting power held equates to the proportion of ownership interest held except for TGA for which both the Group and the CPF must consent to the strategic, financial and operating decisions. TGA and CPF do not recognise income tax expense or liabilities given their nature.

Investments in equity accounted entities are initially accounted for (recognised) at cost. The carrying amount is reduced where the fair value of the underlying interest, which for TGA and CPF primarily represents an indirect interest in a share of investment properties, is less than cost or the equity accounted carrying amount.

#### (a) Investments

The investments are accounted for using the equity method of accounting. Information relating to the investments is detailed below:

	Ownership Interest		2010 \$'000	2009 \$'000
	2010 %	2009 %		
Investments accounted for using the equity method:				
TGA – jointly controlled entity	<b>67</b>	67	<b>49,872</b>	51,850
CPF – associate	<b>18</b>	18	<b>6,903</b>	6,442
Phoenix – associate	<b>50</b>	50	<b>27</b>	3
			<b>56,802</b>	58,295

#### TGA

The Group holds a 67% (2009: 67%) interest in TGA. The remaining 33% interest was held by CPF. The Group exercises joint control over TGA, but neither the Group nor CPF has control in its own right, irrespective of their ownership interest, as both the Group and CPF must consent to the strategic, financial and operating decisions relating to TGA. TGA has no borrowings and no material liabilities. Since balance date the Group has acquired CPF's one-third interest in TGA – refer note 41(a).

#### CPF

At balance date the Group held 18% (2009: 18%) of the issued units of CPF. The Group is considered to have significant influence over CPF due to it being the single largest investor in the CPF, with the next largest investor holding 1.3% (2009: 1.3%) of the issued units of CPF.

#### Phoenix

The Group holds a 50% interest in Phoenix which was acquired in the 2009 financial year.

**(b) Movement in carrying amount of investments in jointly controlled entity and associates**

	Phoenix \$'000	CPF \$'000	TGA \$'000	Total \$'000
<b>2010</b>				
Balance at 1 July 2009	3	6,442	51,850	58,295
Share of profit/(loss) <sup>(1)</sup>	24	636	3,222	3,882
Distributions received	-	(175)	(5,200)	(5,375)
<b>Balance at 30 June 2010</b>	<b>27</b>	<b>6,903</b>	<b>49,872</b>	<b>56,802</b>
<b>2009</b>				
Balance at 1 July 2008	-	22,024	58,569	80,593
Additions – at cost	237	-	-	237
Share of profit/(loss) <sup>(1)</sup>	(2)	(13,332)	103	(13,231)
Distributions received	-	(2,250)	(6,822)	(9,072)
Decrease to recoverable amount	(232)	-	-	(232)
<b>Balance at 30 June 2009</b>	<b>3</b>	<b>6,442</b>	<b>51,850</b>	<b>58,295</b>

(1) Share of profit/(loss) includes fair value gain/(loss) on investment properties and interest rate derivatives where applicable.

**(c) Share of assets and liabilities of jointly controlled entity and associates**

	2010			2009		
	Phoenix \$'000	CPF \$'000	TGA \$'000	Phoenix \$'000	CPF \$'000	TGA \$'000
<b>Assets</b>						
Current assets	66	20,202	124	41	813	1,619
<b>Non-current assets</b>						
Investment properties	-	40,924	50,000	-	56,265	51,667
Other	4	4,788	-	8	11,124	-
<b>Total non-current assets</b>	<b>4</b>	<b>45,712</b>	<b>50,000</b>	<b>8</b>	<b>67,389</b>	<b>51,667</b>
<b>Total assets</b>	<b>70</b>	<b>65,914</b>	<b>50,124</b>	<b>49</b>	<b>68,202</b>	<b>53,286</b>
<b>Liabilities</b>						
Current liabilities						
Borrowings	(33)	(57,859)	-	(31)	(52,405)	-
Other	(10)	(1,152)	(252)	(15)	(9,355)	(1,436)
<b>Total current liabilities</b>	<b>(43)</b>	<b>(59,011)</b>	<b>(252)</b>	<b>(46)</b>	<b>(61,760)</b>	<b>(1,436)</b>
<b>Total liabilities</b>	<b>(43)</b>	<b>(59,011)</b>	<b>(252)</b>	<b>(46)</b>	<b>(61,760)</b>	<b>(1,436)</b>
<b>Net assets</b>	<b>27</b>	<b>6,903</b>	<b>49,872</b>	<b>3</b>	<b>6,442</b>	<b>51,850</b>

**(d) Share of revenues, expenses and results of jointly controlled entity and associates**

Revenue <sup>(1)</sup>	148	7,777	5,303	37	7,788	5,497
Expenses <sup>(1)</sup>	(124)	(7,141)	(2,081)	(39)	(21,120)	(5,394)
<b>Share of profit/(loss)</b>	<b>24</b>	<b>636</b>	<b>3,222</b>	<b>(2)</b>	<b>(13,332)</b>	<b>103</b>

(1) Includes share of fair value adjustment to investment properties and interest rate derivatives where applicable.

**(e) Assets pledged as security**

Borrowings (refer note 20) are secured by a registered floating charge over the investments.

## 16. Property, Plant and Equipment

	2010 \$'000	2009 \$'000
Furniture and fittings at cost	1,450	1,172
Accumulated depreciation	(634)	(422)
	<b>816</b>	750
Plant and equipment at cost	1,385	1,150
Accumulated depreciation	(939)	(772)
	<b>446</b>	378
Plant and equipment under finance lease at cost	-	267
Accumulated depreciation	-	(123)
	-	144
<b>Property, plant and equipment</b>	<b>1,262</b>	1,272

### (a) Movement in property, plant and equipment

Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below.

	Property Under Construction \$'000	Furniture and fittings \$'000	Plant and Equipment Owned \$'000	Equipment Under Lease \$'000	Total \$'000
Balance at 1 July 2009	-	750	378	144	1,272
Additions	-	11	242	-	253
Transfers	-	144	-	(144)	-
Disposals	-	-	(3)	-	(3)
Depreciation	-	(89)	(171)	-	(260)
<b>Balance at 30 June 2010</b>	-	<b>816</b>	<b>446</b>	-	<b>1,262</b>
Balance at 1 July 2008	42,155	704	433	287	43,579
Additions	37,390	9	90	-	37,489
Transfer to investment properties	(79,545)	-	-	-	(79,545)
Transfers	-	103	-	(103)	-
Depreciation	-	(66)	(145)	(40)	(251)
<b>Balance at 30 June 2009</b>	-	750	378	144	1,272

### (b) Additions relating to property under construction

	2010 \$'000	2009 \$'000
Additions at cost		
Construction costs	-	35,591
Holding costs	-	217
Capitalised interest	-	1,582
	-	37,390

## 17. Deferred Tax Assets

	2010 \$'000	2009 \$'000
<b>Deferred tax assets</b>	<b>791</b>	1,721
<i>Deferred tax assets and liabilities are attributable to the following:</i>		
Interests in managed investment schemes	<b>(1,898)</b>	(1,870)
Payables	<b>33</b>	36
Employee benefits	<b>402</b>	331
Provisions	<b>26</b>	30
Other accruals and sundry items	<b>64</b>	102
Tax losses recognised	<b>2,164</b>	3,092
	<b>791</b>	1,721
<i>Movements</i>		
Balance at 1 July	<b>1,721</b>	3,846
Reduction in current tax liability on use of tax losses previously recognised	<b>(276)</b>	(618)
(Debit)/credit to profit or loss	<b>15</b>	(2)
Losses (recognised)/written off	<b>(653)</b>	(1,516)
Adjustments in relation to prior periods	<b>(16)</b>	11
<b>Balance at 30 June</b>	<b>791</b>	1,721

The benefit of temporary differences and prior year tax losses recognised as a deferred tax asset was based on projected earnings over a limited period that the Directors considered to be probable. Projected earnings are re-assessed at each reporting date. There remains a significant amount of tax losses that have not been recognised as a deferred tax asset (refer note 6).

## 18. Intangible Assets

Software – at cost	<b>1,781</b>	1,467
Accumulated amortisation	<b>(1,285)</b>	(953)
<b>Intangible assets</b>	<b>496</b>	514

Amortisation of software is included in amortisation expense in profit or loss.

### Reconciliations of the carrying amounts of software are set out below:

Balance at 1 July	<b>514</b>	452
Additions	<b>288</b>	362
Disposals	<b>(15)</b>	(6)
Amortisation	<b>(291)</b>	(294)
<b>Balance at 30 June</b>	<b>496</b>	514

## 19. Trade and Other Payables

Trade payables and accruals	<b>9,998</b>	7,934
Tenant security deposits	<b>171</b>	181
Other payables	<b>1,764</b>	8,309
<b>Trade and other payables</b>	<b>11,933</b>	16,424

Trade and other payables are generally unsecured, non-interest bearing and paid in cash within 30-60 days of recognition.

## 20. Borrowings

	2010 \$'000	2009 \$'000
<b>Current</b>		
<i>Secured</i>		
Loans – financial institutions	<b>29,232</b>	81,181
Lease liabilities	-	20
<b>Borrowings – current</b>	<b>29,232</b>	81,201
<b>Non-Current</b>		
<i>Secured</i>		
Loans – financial institutions	<b>637,354</b>	641,647
<b>Borrowings – non-current</b>	<b>637,354</b>	641,647

Loans shown above are net of transaction costs which are amortised over the term of the loan.

### (a) Borrowing details

Details of borrowings of the Group at balance date are set out below:

Facility	Note	Secured	Maturity Date	Facility 2010 \$'000	Utilised 2010 \$'000	Facility 2009 \$'000	Utilised 2009 \$'000
Bank loan – Syndicate Finance	(i)	Yes	Oct 2011	<b>430,893</b>	<b>430,893</b>	452,000	452,000
Bank loan – Tuggeranong (Tranche 1)	(ii)	Yes	June 2015	<b>107,916</b>	<b>107,916</b>	107,916	107,916
Bank loan – Tuggeranong (Tranche 2)	(ii)	Yes	June 2013	<b>9,961</b>	<b>9,961</b>	13,282	13,282
Bank loan – Synergy	(iii)	Yes	July 2011	<b>46,800</b>	<b>46,800</b>	77,861	77,861
Bank loan – TGA	(iv)	Yes	Mar 2011	<b>25,946</b>	<b>25,946</b>	25,946	25,946
Bank loan – Mary Street	(v)	Yes	Aug 2011	<b>47,000</b>	<b>47,000</b>	49,500	48,500
Total facilities				<b>668,516</b>	<b>668,516</b>	726,525	725,525
Less unamortised transaction costs					<b>(1,930)</b>		(2,677)
<b>Total borrowings</b>					<b>666,586</b>		722,848

#### (i) Bank Loan – Syndicate Finance

The Syndicate finance facility is secured by first registered mortgages over the majority of the investment properties held by the Group and a registered floating charge over the assets of the Trust. Interest is payable monthly in arrears at variable rates based on a margin over the 30 day BBSY rate and was 4.2% at balance date. An amount of \$367,925,000 (2009: \$238,985,000) was effectively fixed at balance date through interest rate swap arrangements which expire between July 2010 and September 2017 (2009 expired or due to expire between July 2009 and September 2017). Repayments of \$21,107,000 (2009: \$nil) were made during the year from proceeds of the sale of investment properties.

#### (ii) Bank Loan – Tuggeranong

The Group has a \$117,877,000 (2009: \$121,198,000) loan in relation to its investment in Tuggeranong Office Park. The loan is secured by a first registered mortgage over the investment property and a registered floating charge over the assets of Tuggeranong Trust. The first tranche of the loan matures in June 2015. The second tranche matures in June 2013 with \$830,000 repayable each quarter until June 2013. The loan bears interest at a variable rate based on a margin over the 30 day BBSY rate. An amount of \$107,916,000 (Tranche 1) was fixed at balance date through interest rate swap arrangements which expired in July 2010. Repayments of \$3,321,000 (2009: \$3,321,000) were made during the year.

#### (iii) Bank Loan – Synergy

This facility was extended in July 2009 and split into two tranches. Tranche A (\$47,100,000) is repayable in July 2011 and Tranche B (\$30,761,000) was repayable by July 2010. Repayments of \$31,061,000, representing the full amount of Tranche B i.e. \$30,761,000 (2009: \$nil) and \$300,000 relating to tranche A (2009: \$nil), were made during the year. The loan is secured by a registered floating charge over the assets of the Group specific to the Synergy investment property. The loan bears interest at a variable rate based on a margin over the 30 day BBSY rate.

#### (iv) Bank Loan – TGA

The Group has a \$25,946,000 (2009: \$25,946,000) loan in relation to its investment (67%) in Cromwell TGA Planned Investment. The loan is secured by a first registered mortgage over the TGA property and a registered floating charge over the assets of Cromwell TGA Planned Investment. These assets are reflected in the carrying value of the investment in jointly controlled entity. The loan bears interest at a variable rate based on a margin over the 30 day BBSY rate. The loan was effectively 100% fixed at balance date through interest rate swap arrangements to August 2010 (2009: 100%).

#### (v) Bank Loan – Mary Street

The Group has a \$47,000,000 (2009: \$49,500,000) facility secured over the 200 Mary Street investment property. The loan has been drawn down in two tranches, Tranche 1 for \$20,000,000 and Tranche 2 for \$28,500,000, with both tranches repayable by August 2011. Repayments of \$1,500,000, relating to Tranche 2 (2009: \$nil), were made during the year. The loan bears interest at a variable rate based on a margin over the 30 day BBSY rate.

#### (b) Maturity Profile

Maturity profile of the principal amounts of current and non-current borrowings together with estimated interest thereon:

	2010 \$'000	2009 \$'000
Due within one year	<b>69,182</b>	109,062
Due between one and five years	<b>674,203</b>	584,342
Due after five years	-	112,524
	<b>743,385</b>	805,928

#### (c) Unused Finance Facilities

At balance date the Group had unused finance facilities totalling \$nil (2009: \$1,000,000).

#### (d) Interest Rate Risk

##### Interest rate Derivatives

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate derivatives. Such interest rate derivatives have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and a portion of them into fixed or limited range of rates.

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2010</b>								
Financial institution loans	<b>665,586</b>	-	-	-	-	-	-	<b>665,586</b>
Interest rate derivatives <sup>(1)</sup>	<b>(502,841)</b>	<b>184,661</b>	<b>200,000</b>	-	-	-	<b>118,180</b>	-
	<b>162,745</b>	<b>184,661</b>	<b>200,000</b>	-	-	-	<b>118,180</b>	<b>665,586</b>
<b>Weighted average interest rate %</b>	<b>5.53%</b>	<b>4.33%</b>	<b>4.75%</b>	-	-	-	<b>5.94%</b>	
<b>2009</b>								
Financial institution loans	722,828	-	-	-	-	-	-	722,828
Lease liabilities	-	20	-	-	-	-	-	20
Interest rate derivatives <sup>(1)</sup>	(265,985)	71,060	76,745	-	-	-	118,180	-
	456,843	71,080	76,745	-	-	-	118,180	722,848
<b>Weighted average interest rate %</b>	<b>4.78%</b>	<b>5.06%</b>	<b>5.56%</b>	-	-	-	<b>5.94%</b>	

(1) notional principal amounts

## 21. Dividends/Distributions Payable

	2010 \$'000	2009 \$'000
<b>Dividends/distributions payable</b>	<b>16,157</b>	10,546

Distributions payable relate to June quarter distributions declared in June and payable in August of each year.

## 22. Provisions

### Current

Employee benefits	929	825
Property development	5,093	6,979
	<b>6,022</b>	7,804

### Non-Current

Employee benefits	379	265
Restoration	100	100
<b>Provisions</b>	<b>479</b>	365

### Movement in provisions

	Property Development		Restoration	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance at 1 July	6,979	-	100	100
Additional provision recognised	6,331	6,979	-	-
Payments during year	(8,217)	-	-	-
<b>Balance at 30 June</b>	<b>5,093</b>	6,979	<b>100</b>	100

### Property development Obligations

The Group has entered into development agreements with Cromwell Property Fund ("CPF") in respect of certain properties leased from CPF. Under the development agreements the Group can develop the land on the basis that CPF would fully recover its cost. At 30 June 2010 the Group assessed the recoverable amount of the properties held by CPF at less than CPF's cost and has provided for the difference through an increase in the provision of \$6,331,000 (2009: \$6,979,000). In 2009 an additional impairment of inventories of \$4,484,000 (refer note 10) was recorded resulting in a total charge to profit or loss of \$11,463,000. The recoverable amount of these properties was assessed on the basis of their expected realisation values without further development. During the current year, the Group paid \$5,230,000 to the CPF following the termination of the development agreement over land located at Maidstone, Altona, VIC and \$2,987,000 to the CPF in relation to land at Lenore Lane, NSW. Since balance date CPF has sold the Lenore Lane property and terminated the development agreement. The amount provided as payable to CPF in respect of Lenore Lane at 30 June 2010 was \$4,865,000.

### Restoration

The Group's operating leases of its premises requires the asset to be returned to the lessor in a lease stipulated condition. The operating lease payments do not include an element for the refurbishment costs. A provision for refurbishment costs (make good obligations) is recognised over the period of the lease, measured at each reporting date as the expected cost of returning the asset to its agreed condition.

## 23. Other Current Liabilities

	2010 \$'000	2009 \$'000
<b>Unearned income</b>	<b>6,618</b>	8,131

Unearned income primarily comprises rent paid in advance.

## 24. Contributed Equity

### (a) Share Capital

<b>807,834,934 (2009: 702,943,059) fully paid ordinary shares</b>	<b>49,197</b>	43,688
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Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

#### Movements in ordinary share capital

	No. of Shares	\$'000
Balance at 1 July 2009	<b>702,943,059</b>	43,688
Placement of shares – 24 December 2009	<b>104,750,000</b>	5,477
Issue transaction costs	-	(18)
Issue of treasury shares to employees on exercise of options	<b>141,875</b>	50
<b>Balance at 30 June 2010</b>	<b>807,834,934</b>	49,197
Balance at 1 July 2008	<b>702,816,227</b>	43,644
Issue of treasury shares to employees on exercise of options	<b>126,832</b>	44
<b>Balance at 30 June 2009</b>	<b>702,943,059</b>	43,688

The basis of allocation of the issue price of stapled securities issued post stapling is determined by agreement between the Company and the Trust as set out in the Stapling Deed.

Treasury shares are held by the Employee Share Ownership Plan (ESOP) (refer note 32). Total number of fully paid ordinary shares at balance date comprises:

	2010 Number	2009 Number
Ordinary shares as shown above	<b>807,834,934</b>	702,943,059
Treasury shares held by ESOP	-	141,875
	<b>807,834,934</b>	703,084,934

### (b) Stapled Securities

The ordinary shares of the Company are stapled with the units of the Trust. These entitle the holder to participate in dividends and distributions as declared from time to time and the proceeds on winding up. On a show of hands every holder of stapled securities present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll each stapled security is entitled to one vote.

A reconciliation of the stapled number of ordinary shares of the Company and ordinary units of the Trust is as follows:

	2010 Company Number	2010 Trust Number	2009 Company Number	2009 Trust Number
Ordinary shares / ordinary units	<b>807,834,934</b>	<b>808,110,040</b>	702,943,059	703,360,040
Treasury stapled securities held by ESOP *	-	-	141,875	-
Unstapled units (held by the Company)	-	<b>(275,106)</b>	-	(275,106)
	<b>807,834,934</b>	<b>807,834,934</b>	703,084,934	703,084,934

\* The ESOP held a similar number of Trust units which were included in the total of 703,084,934 units.

### (c) Options

Information relating to the Employee Share Ownership Plan and Performance Rights Plan, including details of options issued, exercised and lapsed during the financial year, is set out in note 32.

## 25. Reserves

	2010 \$'000	2009 \$'000
Share based payments	1,255	916
Available-for-sale financial assets revaluation reserve	2,340	2,340
<b>Reserves</b>	<b>3,595</b>	<b>3,256</b>

### Movements in reserves

#### Share based payments

Balance at 1 July	916	683
Options expensed	339	233
<b>Balance at 30 June</b>	<b>1,255</b>	<b>916</b>

The share based payments reserve is used to recognise the fair value of options issued for goods and services including employee services.

### Available-for-sale financial assets revaluation reserve

Changes in the fair value of investments classified as available-for-sale are taken to the available-for-sale financial assets revaluation reserve. Amounts are recognised in profit or loss when the associated assets are disposed/sold or impaired. The balance at year end comprises a reserve of a subsidiary attributable to its pre-stapling interest in a Syndicate which continues to be held. There was no movement in the available-for-sale financial assets revaluation reserve over the last two financial years.

## 26. Retained Earnings/(Accumulated Losses)

<b>Retained Earnings/(Accumulated Losses)</b>	<b>(46,021)</b>	(38,371)
<b>Movements in retained earnings/(accumulated losses)</b>		
Balance at 1 July	(38,371)	(18,800)
Profit/(loss) for the year	(7,650)	(18,971)
Transfer from minority interest (external)	-	(600)
<b>Balance at 30 June</b>	<b>(46,021)</b>	<b>(38,371)</b>

## 27. Non-Controlling Interests

Equity attributable to unitholders:		
Contributed equity	599,384	531,853
Reserves	-	-
Retained earnings/(accumulated losses)	(34,748)	(833)
<b>Equity attributable to unitholders</b>	<b>564,636</b>	<b>531,020</b>

Application of AASB Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* and AASB 3 *Business Combinations* requires, for stapling arrangements which do not involve one of the combining entities obtaining an ownership interest in another combining entity, the net assets and profit or loss of the consolidated acquiree to be identified as non-controlling interests. Even though the interests of the equity holders of the identified acquiree (the Trust) are treated as non-controlling interests (as above) the equity holders of the acquiree are also equity holders in the acquirer (the Company) by virtue of the stapling arrangement.

### Movements in contributed equity - unitholders

	2010 \$'000	2009 \$'000
Balance at 1 July	531,853	531,853
Placement of units – 24 Dec 2009	67,847	-
Unit issue transaction costs	(316)	-
<b>Balance at 30 June</b>	<b>599,384</b>	<b>531,853</b>

### Movements in reserves – unitholders

#### *Available-for-sale financial assets revaluation reserve*

Balance at 1 July	-	(868)
Increase/(decrease) in fair value of available-for-sale financial assets	3,431	(3,663)
Transfers to statement of comprehensive income:		
Impairment loss	-	3,663
Realised gain	(3,431)	-
Other	-	868
<b>Balance at 30 June</b>	<b>-</b>	<b>-</b>

#### *General reserve*

Balance at 1 July	-	131,834
Transfer to retained earnings/(accumulated losses)	-	(131,834)
<b>Balance at 30 June</b>	<b>-</b>	<b>-</b>

### Movement in retained earnings/(accumulated losses) – unitholders

Balance at 1 July	(833)	25,150
Profit/(loss) for the year	26,703	(94,540)
Distributions paid/payable	(60,618)	(63,277)
Transfer from general reserve	-	131,834
<b>Balance at 30 June</b>	<b>(34,748)</b>	<b>(833)</b>

## 28. Dividends/Distributions

#### *Franking credits*

Franking credits available for subsequent years based on a tax rate of 30% (2009 – 30%)	1,303	1,025
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise/(decrease) from the payment/(receipt) of the amount of the provision/(receivable) for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

#### **Dividends paid/payable by the Company**

There were no dividends paid or payable by the Company in respect of the 2009 and 2010 financial years.

### Distributions paid/payable by the Trust

2010 Date Paid	2009 Date Paid	2010 Cents*	2009 Cents*	2010 \$'000	2009 \$'000
16 November 2009	14 November 2008	2.0¢	2.5¢	14,062	17,577
15 February 2010	16 February 2009	2.0¢	2.5¢	14,242	17,577
14 May 2010	15 May 2009	2.0¢	2.5¢	16,157	17,577
31 August 2010	31 August 2009	2.0¢	1.5¢	16,157	10,546
		8.0¢	9.0¢	60,618	63,277

\* Cents per stapled security

All distributions from the Trust are unfranked. The determination of the Trust's distributable income excludes unrealised gains/(losses) including fair value adjustments to investment properties and interest rate derivatives.

Dividends/distributions paid in cash, payable at balance date or satisfied by the issue of securities under the reinvestment plan during past two years were as follows:

	2010 \$'000	2009 \$'000
Paid in cash <sup>(1)</sup>	55,007	70,314
Payable at balance date	16,157	10,546
	71,164	80,860

(1) Includes June dividends/distributions from prior year paid in August.

## 29. Earnings/(Loss) per Share

	2010	2009
<b>Basic earnings/(loss) per share</b>	<b>(1.0¢)</b>	<b>(2.7¢)</b>
<b>Diluted earnings/(loss) per share</b>	<b>(1.0¢)</b>	<b>(2.7¢)</b>

	\$'000	\$'000
Earnings used to calculate basic and diluted earnings/(loss) per share:		
Profit/(loss) for the year	19,053	(113,511)
Profit attributable to non-controlling interests	26,703	94,540
<b>Profit/(loss) attributable to ordinary equity holders of the company used in calculating basic/ diluted earnings/(loss) per share</b>	<b>(7,650)</b>	<b>(18,971)</b>

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	757,004,542	702,816,227
Effect of dilutive securities:		
Director and employee share options	309,857	63,006
<b>Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings/(loss) per share</b>	<b>757,314,399</b>	<b>702,879,233</b>

Options granted under the Employee Share Ownership Plan and the Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings/(loss) per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings/(loss) per share. Details relating to the options are set out in Note 32.

## 30. Cash flow Information

### (a) Reconciliation of profit/(loss) to net cash provided by operating activities

	2010 \$'000	2009 \$'000
Net profit/(loss)	<b>19,053</b>	(113,511)
Amortisation and depreciation	<b>551</b>	545
Amortisation (loan transaction costs)	<b>1,869</b>	1,415
Amortisation of lease costs and incentives	<b>5,411</b>	4,303
Share of profits of jointly controlled entity/associates (net of distributions)	<b>1,493</b>	22,303
(Gain)/loss on sale of available-for-sale financial assets	<b>(3,431)</b>	-
(Gain)/loss on sale of investment properties	<b>554</b>	-
Share based payments	<b>339</b>	233
Fair value net (gain)/loss from:		
Investment properties	<b>32,146</b>	104,288
Interest rate derivatives	<b>1,283</b>	22,479
Investments at fair value through profit or loss	<b>(836)</b>	3,107
(Increase)/decrease to recoverable amount:		
Available-for-sale financial assets	-	3,663
Property development inventories	<b>6,331</b>	11,463
Jointly controlled entity/associates	-	232
Loans receivable	<b>(1,932)</b>	4,890
Straight-line rentals	<b>(852)</b>	(1,716)
Refund of transaction costs paid on merger	-	(5,284)
Loss on disposal of property, plant and equipment and intangibles	<b>18</b>	-
Other	-	6
Changes in operating assets and liabilities:		
(Increase)/decrease:		
Trade and other receivables	<b>2,138</b>	(5,016)
Prepayments	<b>634</b>	(744)
Inventories*	<b>(125)</b>	(454)
Tax assets	<b>623</b>	(147)
Increase/(decrease):		
Trade payables and accruals	<b>61</b>	2,384
Provisions (employee benefits/restoration)	<b>218</b>	175
Unearned revenue	<b>(1,513)</b>	4,817
<b>Net cash provided by operating activities</b>	<b>64,033</b>	59,431

\* Prior to decrease to recoverable amount.

### (b) Finance facilities

Refer to note 20 for details of unused finance facilities.

### (c) Cash held as part of minimum net tangible assets

At balance date cash held by controlled entities of \$1,354,000 (2009: \$601,000) was required to be maintained under their Australian Financial Services Licence (AFSL). As such, the cash is effectively restricted in its use as it cannot readily be used to meet expenses and obligations of other Group entities without consideration of the AFSL requirements.

## 31. Key Management Personnel Disclosures

### (a) Key management personnel compensation

	2010 \$	2009 \$
Short-term employee benefits	<b>3,655,879</b>	3,843,909
Post-employment benefits	<b>155,855</b>	174,972
Other long-term benefits	<b>39,707</b>	50,489
Share-based payments	<b>206,732</b>	129,494
	<b>4,058,173</b>	4,198,864

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Option holdings

The numbers of options over ordinary shares in the Company (and units in the Trust through the stapling arrangement) held during the financial year by each director of Cromwell Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below.

Name	Balance at 1 July	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at 30 June Vested	Balance at 30 June Not Vested
<b>2010</b>						
<i>Directors:</i>						
GH Levy	-	-	-	-	-	-
PL Weightman	<b>738,733</b>	-	-	-	-	<b>738,733</b>
RJ Pullar	-	-	-	-	-	-
MA McKellar	-	-	-	-	-	-
DE Usasz	-	-	-	-	-	-
M Wainer <sup>(1)</sup>	-	-	-	-	-	-
M Flax <sup>(2)</sup>	-	-	-	-	-	-
DJ Wilson	<b>344,200</b>	-	-	-	-	<b>344,200</b>
WR Foster	-	-	-	-	-	-
<i>Other key management personnel of the Group:</i>						
PW Howard	-	-	-	-	-	-
DA Gippel	<b>460,083</b>	<b>659,600</b>	-	<b>(203,750)</b>	-	<b>915,933</b>
MJ Blake	<b>338,000</b>	-	-	-	-	<b>338,000</b>
B Binning <sup>(3)</sup>	<b>200,133</b>	<b>126,859</b>	-	-	-	<b>326,992</b>
NE Riethmuller	-	-	-	-	-	-
JA Clark	<b>92,100</b>	-	-	-	-	<b>92,100</b>
	<b>2,173,249</b>	<b>786,459</b>	-	<b>(203,750)</b>	-	<b>2,755,958</b>

(1) M Wainer became a KMP on 29 January 2010.

(2) M Flax became a KMP on 29 January 2010.

(3) B Binning became a KMP on 1 July 2009

Name	Balance at 1 July	Granted during the year as compensation	Exercised during the year	Forfeited during the year	Balance at 30 June Vested	Balance at 30 June Not Vested
<b>2009</b>						
<i>Directors:</i>						
GH Levy	-	-	-	-	-	-
PL Weightman	1,108,100	-	-	(369,367)	-	738,733
RJ Pullar	-	-	-	-	-	-
MA McKellar	-	-	-	-	-	-
DE Usasz	-	-	-	-	-	-
DJ Wilson	516,300	-	-	(172,100)	-	344,200
WR Foster	-	-	-	-	-	-
<i>Other key management personnel of the Group:</i>						
PW Howard	-	-	-	-	-	-
SM Morgan <sup>(2)</sup>	229,200	-	-	(229,200)	-	-
DA Gippel	792,000	-	-	(331,917)	-	460,083
MC McLaughlin <sup>(1)</sup>	394,400	-	-	(131,467)	-	262,933
MJ Blake	507,000	-	-	(169,000)	-	338,000
PJ McDonnell <sup>(1)</sup>	300,200	-	-	(100,067)	-	200,133
PJ Cowling <sup>(1)</sup>	592,650	-	(109,075)	(113,900)	141,875	227,800
NE Riethmuller <sup>(3)</sup>	-	-	-	-	-	-
JA Clark	92,100	-	-	-	-	92,100
	4,531,950	-	(109,075)	(1,617,018)	141,875	2,663,982

(1) Not considered a KMP during the 2010 financial year.

(2) SM Morgan resigned on 11 November 2008.

(3) NE Riethmuller was appointed on 11 November 2008.

## (ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Cromwell Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below.

### Ordinary share holdings

Name	Balance at 1 July	On exercise of options	Net purchases (sales)	Balance at 30 June
<b>2010</b>				
<i>Directors:</i>				
GH Levy <sup>(1)</sup>	370,000	-	-	370,000
PL Weightman	15,464,167	-	-	15,464,167
RJ Pullar	14,000,000	-	-	14,000,000
MA McKellar	300,000	-	30,000	330,000
DE Usasz	1,877,580	-	50,000	1,927,580
M Wainer <sup>(2)</sup>	-	-	-	-
M Flax <sup>(2)</sup>	-	-	-	-
DJ Wilson	2,215,006	-	(259,262)	1,955,744
WR Foster	5,349,598	-	(87,833)	5,261,765
<i>Other key management personnel of the Group:</i>				
PW Howard	-	-	-	-
DA Gippel	547,264	-	-	547,264
MJ Blake	1,775,612	-	-	1,775,612
B Binning	10,000	-	-	10,000
NE Riethmuller	-	-	-	-
JA Clark	71,032	-	-	71,032
	41,980,259	-	(267,095)	41,713,164

(1) GH Levy is a director of Investec Equity Investments Limited, which is the manager of Investec Australian Equity Fund, which owned 1,213,595 (2009: 862,995) stapled securities in the Cromwell Group. GH Levy has indirect beneficial ownership of the shares as a unitholder in the fund.

(2) M Wainer and M Flax became KMPs on 29 January 2010. M Wainer and M Flax are directors of Redefine International Plc which indirectly owns Redefine Australia Investments Limited, which owns 104,750,000 stapled securities in the Cromwell Group.

Name	Balance at 1 July	On exercise of options	Net purchases (sales)	Balance at 30 June
<b>2009</b>				
<i>Directors:</i>				
GH Levy	-	-	370,000	370,000
PL Weightman	15,464,167	-	-	15,464,167
RJ Pullar	14,000,000	-	-	14,000,000
MA McKellar	120,000	-	180,000	300,000
DE Usasz	1,747,602	-	129,978	1,877,580
DJ Wilson	2,215,006	-	-	2,215,006
WR Foster	5,349,598	-	-	5,349,598
<i>Other key management personnel of the Group:</i>				
PW Howard	-	-	-	-
SM Morgan	-	-	-	-
DA Gippel	547,264	-	-	547,264
MC McLaughlin	467,151	-	(157,536)	309,615
MJ Blake	1,975,612	-	(200,000)	1,775,612
PJ McDonnell	200,000	-	-	200,000
PJ Cowling	1,524,850	109,075	-	1,633,925
NE Riethmuller	-	-	-	-
JA Clark	71,032	-	-	71,032
	43,682,282	109,075	322,442	44,113,799

There were no shares granted during 2010 or 2009 as compensation.

At balance date the numbers above for the Directors and other key management personnel represent the number of stapled securities of the Group held.

### (c) Loans to key management personnel

No loans were made during the 2010 or 2009 year to key management personnel and no loans were outstanding at the reporting date.

### (d) Other transactions with key management personnel

The Group entered into a development agreement in 2007 with Citimark Properties Limited ("Citimark"), an entity related to Mr. Robert Pullar, who is a director of the Company. Under the agreement, Citimark developed the Synergy investment property in Kelvin Grove, Brisbane in accordance with specified terms, and to agreed standards. Construction was completed in November 2008. Under the development agreement, the Group reimbursed Citimark for the costs of the project, and paid fees contingent upon the outcomes of certain events, mostly based on total construction costs of and leasing outcomes. Citimark provided a rental guarantee to the Group over the entire property for 18 months from the date construction was complete. During the 2009 financial year the Group paid \$49,706,942 to Citimark for development and construction costs and received \$4,286,354 as settlement of the rental guarantee.

The Group rents an apartment, located at 185 Macquarie Street, Sydney, which is owned by Mr. Paul Weightman, a director of the Company. Total rent paid during 2010 was \$88,400 (2009: \$88,400). The payment of rent is on normal commercial terms and conditions and at market rates.

## 32. Share Based Payments

### (a) Performance Rights Plan

A Performance Rights Plan (PRP) was established in September 2007 by the Company. All full-time and part-time employees who meet minimum service, remuneration and performance requirements, including executive Directors of Cromwell Corporation Limited, are eligible to participate in the PRP at the discretion of the Board. Participation in the PRP by executive Directors is subject to securityholder approval. The PRP is designed to provide long-term incentives for senior managers and executive Directors to continue employment and deliver long-term securityholder returns.

Under the PRP, eligible employees are allocated Performance Rights. Each Performance Right enables the participant to acquire a stapled security in Cromwell Group, at a future date and exercise price, subject to conditions. The number of Performance Rights allocated to each participant is set by the Board or the Remuneration Committee and based on individual circumstances and performance.

The amount of Performance Rights that will vest under the PRP depends on a combination of factors which may include the Group's total securityholder returns (including price growth, dividends and capital returns), internal performance measures and the participant's continued employment.

Performance Rights allocated under the PRP generally vest in 3 years. Until Performance Rights have vested, the participant cannot sell or otherwise deal with the Performance Rights except in certain limited circumstances. It is a condition of the PRP that a participant must remain employed by the Group in order for Performance Rights to vest. Any Performance Rights which have not yet vested on a participant leaving employment must be forfeited.

Under AASB 2 "Share based Payment", the rights granted to employees to securities acquired by the plan are treated as options for accounting purposes.

Set out below are summaries of the number of Performance Rights granted and exercised.

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Lapsed during the year	Exercised during the year	Balance at year end
<b>2010</b>							
18/09/2007	19/01/2010	\$1.21	289,150	-	(289,150)	-	-
18/09/2007	19/01/2011	\$1.21	2,811,434	-	-	-	2,811,434
18/09/2007	19/01/2011	\$0.00	8,600	-	-	-	8,600
06/12/2007	07/04/2011	\$1.21	1,082,933	-	-	-	1,082,933
16/12/2009	15/01/2012	\$0.20	-	659,600	-	-	659,600
08/02/2010	07/03/2012	\$0.00	-	126,859	-	-	126,859
			<b>4,192,117</b>	<b>786,459</b>	<b>(289,150)</b>	-	<b>4,689,426</b>
<b>Weighted average exercise price</b>			<b>\$1.21</b>	<b>\$0.17</b>	<b>\$1.21</b>	-	<b>\$1.03</b>
<b>2009</b>							
18/09/2007	19/01/2010	\$1.21	492,900	-	(203,750)	-	289,150
18/09/2007	19/01/2011	\$1.21	3,886,800	-	(1,075,366)	-	2,811,434
18/09/2007	19/01/2011	\$0.00	8,600	-	-	-	8,600
06/12/2007	07/04/2011	\$1.21	1,624,400	-	(541,467)	-	1,082,933
			6,012,700	-	(1,820,583)	-	4,192,117
<b>Weighted average exercise price</b>			<b>\$1.21</b>	-	<b>\$1.21</b>	-	<b>\$1.21</b>

At balance date nil Performance Rights (2009: nil) were vested and exercisable.

The weighted average remaining contractual life of Performance Rights outstanding at the end of the year was 0.8 years (2009: 1.7 years).

The assessed fair value of Performance Rights granted is as follows:

Grant Date	Expiry Date	Exercise price	Fair value (cents)	
			Non-market based	Market based
18/09/2007	19/01/2010	\$1.21	14.3¢	9.2¢
18/09/2007	19/01/2011	\$1.21	15.0¢	10.6¢
18/09/2007	19/01/2011	\$0.00	96.9¢	-
06/12/2007	07/04/2011	\$1.21	-	8.9¢
16/12/2009	15/01/2012	\$0.20	41.5¢	-
08/02/2010	07/03/2012	\$0.00	59.1¢	-

### Fair Value of Performance Rights Granted

The fair values at grant date for Performance Rights with no market based vesting conditions were determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying security, the expected dividend/distribution yield and the risk-free interest rate for the term of the option. The fair values at grant date for Performance Rights with market based vesting conditions were determined using a Monte Carlo simulation (TSR hurdle) and the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the security price at grant date and expected price volatility of the underlying security, the expected dividend/distribution yield and the risk-free interest rate for the term of the option.

The model inputs for Performance Rights granted during the year ended 30 June 2010 included:

Non-market based vesting conditions		
Exercise price	\$0.20	-
Grant date	16/12/09	08/02/10
Share price at grant date	\$0.74	\$0.735
Expected price volatility	34%	22%
Expected dividend yield	10.81%	10.88%
Risk free interest rate	4.83%	4.79%
Expiry date	15/01/12	07/03/12

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The model inputs for Performance Rights granted during the year ended 30 June 2008 included:

	Non-market based vesting conditions			Market based vesting conditions
Exercise price	\$1.21	\$1.21	-	\$1.21
Grant date	18/09/07	18/09/07	18/09/07	18/9/07 – 6/12/07
Share price at grant date	\$1.26	\$1.26	\$1.26	\$1.25
Expected price volatility	23%	23%	23%	23%
Expected dividend yield	8.06%	8.06%	8.06%	8.06%
Risk free interest rate	6.26%	6.22%	6.22%	6.22%
Expiry date	19/01/10	19/01/11	19/01/11	19/01/10 – 07/04/11
TSR hurdle	-	-	-	13%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### (b) Tax Exempt Plan

The Tax Exempt Plan enables eligible employees to acquire up to \$1,000 of stapled securities on-market in a tax effective manner within a 12 month period. Eligibility for the Tax Exempt Plan is approved by the Board having regard to individual circumstances and performance. No Directors or KMP are eligible for the Tax Exempt Plan.

Expenses relating to the plan are recorded in employee benefits expense and all securities are purchased on-market.

### (c) Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") was established in 2003 by the Company. No grants were made under the ESOP in the 2010 or 2009 years and it is not intended any further grants will be made by this plan in the future.

Under the ESOP, eligible employees were allocated shares in the Company. The shares were acquired by the eligible employees at the time of allocation, funded by a loan from the Company to the eligible employee. The loan was limited recourse to the shares only and interest was payable on the loan at the rate prescribed by the ATO for fringe benefits tax purposes from time to time. Dividends received on shares allocated to the eligible employee are applied against the outstanding loan balance.

Under AIFRS, the shares held within the ESOP are classified as in-substance options, and accounted for as treasury stock, reducing contributed capital. The Group is required to expense the options over the period from grant date to vesting date. Shares on issue under the ESOP at the time of the Stapling in December 2006 were effectively converted to Stapled Securities, in the same way as other shares issued by the Company.

As a result of the stapling transaction in December 2006 all outstanding options under the ESOP became vested and exercisable. Options not exercised were subject to the same reconstruction as ordinary issued shares. Although vested, any options not exercised at stapling are still subject to the same exercisable timetable as prior to stapling.

Set out below are summaries of options granted and exercised.

Grant Date	Expiry Date	Exercise price	Balance at 1 July	Granted during the year	Exercised during the year	Balance at 30 June
<b>2010</b>						
28/8/2005	30/9/2009	<b>34.8¢</b>	<b>141,875</b>	-	<b>(141,875)</b>	-
			<b>141,875</b>	-	<b>(141,875)</b>	-
<b>Weighted average exercise price (cents)</b>			<b>34.8¢</b>	-	<b>34.8¢</b>	-
<b>2009</b>						
28/8/2005	30/6/2009	34.8¢	17,757	-	(17,757)	-
28/8/2005	30/9/2009	34.8¢	250,950	-	(109,075)	141,875
			268,707	-	(126,832)	141,875
<b>Weighted average exercise price (cents)</b>			<b>34.8¢</b>	-	<b>34.8¢</b>	<b>34.8¢</b>

At 30 June 2009 all options were vested and exercisable with a weighted average exercise price of 34.8 cents. All options became vested and exercisable on approval of the stapling by shareholders and unitholders in December 2006.

The weighted average remaining contractual life of share options outstanding at the end of the year was nil years (2009: 0.3 years).

No options were granted in 2010 or 2009. The assessed fair value of options granted in 2006 was 10.1 cents.

141,875 options were exercised during 2010 (126,832 options were exercised during 2009). 141,875 stapled securities (2009: 126,832 shares) were issued to employees on exercise of the options. The aggregate proceeds received from employees on the exercise of options and recognised as issued capital was \$50,000 (2009: \$44,000) for the Company and \$nil (2009: \$nil) for the Trust. The fair value of securities issued at the option exercise date was \$98,000 (that is the weighted average share price at the date of exercise was \$0.69 per security) (2009 - \$66,000; \$0.52 per security).

To 30 June 2010 no options granted under the ESOP have lapsed, been forfeited or expired.

### Fair Value of Options Granted

The fair values at grant date were determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

	Options Granted
Exercise price*	30.9¢
Grant date	28/8/05
Share price at grant date	34¢
Expected price volatility	90%
Expected dividend yield	3.66%
Risk free interest rate	5.0%
Expiry date	30/6-30/9/09

\* Prior to reconstruction on stapling

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### (d) Expenses arising from share based payment transactions

Total expenses arising from share based transactions recognised during the year as part of employee benefits expense were as follows:

	2010 \$'000	2009 \$'000
Options issued under Performance Rights Plan	339	233
Tax Exempt Plan	-	-
Options issued under Employee Share Ownership Plan	-	-
	339	233

## 33. Other Related Party Transactions

### (a) Parent entity and subsidiaries

Cromwell Corporation Limited is the ultimate parent entity in the Group. Details of subsidiaries are set out in Note 35.

### (b) Transactions with jointly controlled entity and associates

Transactions between the Group and its jointly controlled entity and associates also included:

- Loans between the Group and its associates (refer note 8). The Group received interest of \$1,373,153 (2009: \$2,468,144) from Cromwell Property Fund;
- The Group received \$5,375,000 (2009: \$9,072,000) in distributions from its jointly controlled entity and associate during the year (refer note 15);
- The Group charged Cromwell Property Fund \$240,328 (2009: \$2,370,430) acquisition, capital raising, finance structuring, registry services and accounting services fees during the year; and
- The Group charged its jointly controlled entity and associates \$145,249 (2009: \$1,837,684) management fees during the year.

### (c) Transactions with managed investment schemes (managed by the consolidated entity)

Cromwell Property Securities Limited ("CPS") is the responsible entity of a number of managed investment schemes. The Group derives a range of benefits from schemes managed by CPS including management and acquisition fees. As a result of the stapling (in December 2006) the majority of the relevant schemes became part of the Group. For those schemes which are not part of the Group after that date, Cromwell TGA Planned Investment and Cromwell Property Fund (refer note 15), fees and transactions are disclosed above as being transactions with jointly controlled entity and associates.

## 34. Parent Entity Disclosures

As at and throughout the financial year ending 30 June 2010 the parent entity of the Group was Cromwell Corporation Limited.

### Summary financial information

The individual financial statements for the parent entity show the following aggregations.

	Cromwell Corporation Limited	
	2010 \$'000	2009 \$'000
<b>Results</b>		
<b>Profit/(loss) for the year</b>	<b>(6,990)</b>	(16,621)
<b>Total comprehensive income/(loss)</b>	<b>(6,990)</b>	(16,621)
<b>Financial position</b>		
Current assets	<b>16,978</b>	17,132
Total assets	<b>20,391</b>	19,720
Current liabilities	<b>168</b>	16,716
Total liabilities	<b>18,529</b>	16,716
<b>Net Assets</b>	<b>1,862</b>	3,004
<b>Total equity</b>		
Contributed equity	<b>49,197</b>	43,688
Share based payments reserve	<b>1,255</b>	916
Retained earnings/(accumulated losses)	<b>(48,590)</b>	(41,600)
<b>Total equity</b>	<b>1,862</b>	3,004
<b>Contingent liabilities</b>	-	-
<b>Commitments for capital expenditure</b>	-	-
<b>Guarantees provided</b>	-	-

## 35. Investments in Controlled Entities

The Company's investment in controlled entities are shown below, all of which are domiciled in Australia.

Name	Equity Holding	
	2010 %	2009 %
Cromwell Property Securities Limited	100	100%
Cromwell Property Services Pty Ltd	100	100%
Marcoola Developments Pty Ltd	100	100%
Votrait No. 662 Pty Ltd	100	100%
Cromwell Capital Limited	100	100%
Cromwell Finance Limited	100	100%
Cromwell Operations Pty Ltd	100	100%
Cromwell Paclib Nominees Pty Ltd	50	50%
Cromwell Funds Management Limited	100	100%
Cromwell Altona Trust (refer note 38)	100	-

Trust and its controlled entities <sup>(1)</sup>

Name	2010 %	2009 %
Cromwell CMBS Pty Ltd	100%	100%
Cromwell Loan Note Pty Ltd	100%	100%
Cromwell Holding Trust No 1	100%	100%
Cromwell Holding Trust No 2	100%	100%
Cromwell Holding Trust No 4	100%	100%
Terrace Office Park Property Trust/Planned Investment	100%	100%
Cromwell Mary Street Property Trust/Planned Investment <sup>(2)</sup>	92%	92%
Cromwell Goulburn Street Property Trust/Planned Investment	100%	100%
Cromwell Northbourne Planned Investment	100%	100%
Cromwell Planned Investment No 3	100%	100%
Tuggeranong Head Trust	100%	100%
Tuggeranong Trust	100%	100%
Cromwell Phoenix Property Securities Fund	83%	83%
CDPT Finance Pty Ltd	100%	100%
EXM Head Trust	100%	-
EXM Trust	100%	-
Mascot Head Trust	100%	-
Mascot Trust	100%	-

(1) The Trust and its controlled entities listed above are consolidated as part of the Group as required under accounting standards (refer note 1(b)).

(2) The remaining 8% interest in Cromwell Mary Street Property Trust/Planned Investment is held by Cromwell Property Securities Limited.

### EXM Trust and EXM Head Trust

The EXM Trust and EXM Head Trust were formed during the financial year to facilitate the post balance date purchase of 321 Exhibition Street, Melbourne, VIC ("the Exhibition Property") from the Cromwell Property Fund - refer note 41.

### Mascot Trust and Mascot Head Trust

The Mascot Trust and Mascot Head Trust were formed during the financial year to facilitate the post balance date purchase of 203 Coward Street, Mascot, NSW ("the Qantas Property") - refer note 41.

## 36. Segment Information

### (a) Description of segments

#### Reportable segments

The Group has identified its operating segments based on its internal reports which are regularly reviewed and used by the Chief Executive Officer in order to make decisions about resource allocation and to assess the performance of the Group. The segments offer different products and services and are managed separately.

#### Property Investment

The ownership of properties located throughout Australia.

#### Funds Management

The establishment and management of external property funds and the Trust.

#### Property Development

Property development, including development management, development finance and joint venture activities.

### (b) Other segment information

#### (i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group as disclosed in note 1 and Accounting Standard AASB 8 *Operating Segments*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, investment properties, plant and equipment and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other payables, employee benefits and provisions.

#### (ii) Inter-segment transactions

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms-length" basis and are eliminated on consolidation.

#### (iii) Equity-accounted investments

The Group has an investment in an Australian jointly controlled entity (Cromwell TGA Planned Investment) and two Australian associates (Cromwell Property Fund and Phoenix Portfolios Pty Ltd). Cromwell TGA Planned Investment and Cromwell Property Fund are accounted for using the equity method and included in the property investment segment. Phoenix Portfolios Pty Ltd is accounted for using the equity method and included in the funds management segment.

#### (iv) Major customers

Revenue of approximately \$42,486,000 (2009: \$38,276,000) is derived from a single external customer (Commonwealth of Australia) and is part of the property investment segment.

**(c) Operating segments**

2010	Property Investment \$'000	Funds Management \$'000	Property Development \$'000	Consolidated \$'000
<b>Segment results</b>				
<b>Segment revenue and other income</b>				
Sales – external customers	121,180	9,283	-	130,463
Sales – intersegmental	842	10,391	-	-
Profit of equity accounted entities (before adjustments)	6,364	24	-	6,388
Distributions	428	1	-	429
Interest	5,239	1,026	-	6,265
Other income	127	397	-	524
<b>Total segment revenue and other income</b>	<b>134,180</b>	<b>21,122</b>	<b>-</b>	<b>144,069</b>
<b>Segment expenses</b>				
Property expenses and outgoings	18,624	-	-	18,624
Property development costs	-	-	3,487	3,487
Property administration costs	1,015	-	-	1,015
Intersegmental costs	10,391	842	-	-
Funds management commissions	-	3,274	-	3,274
Employee benefits expense	-	9,390	1,373	10,763
Finance costs	38,668	-	-	38,668
Other	-	3,447	525	3,972
<b>Total segment expenses</b>	<b>68,698</b>	<b>16,953</b>	<b>5,385</b>	<b>79,803</b>
Income tax expense/(benefit)	-	1,249	(1,613)	(364)
<b>Segment profit/(loss) <sup>(1)</sup></b>	<b>65,482</b>	<b>2,920</b>	<b>(3,772)</b>	<b>64,630</b>
<b>Reconciliation to reported profit/(loss)</b>				
Loss on sale of investment properties	(554)	-	-	(554)
Gain on sale of available-for-sale financial assets	3,431	-	-	3,431
Fair value adjustments/write downs:				
Investment properties	(32,146)	-	-	(32,146)
Interest rate derivatives	(1,283)	-	-	(1,283)
Investments at fair value through profit or loss	836	-	-	836
Property development inventories/provision	-	-	(6,331)	(6,331)
Loan receivable	-	-	1,932	1,932
Equity accounted investments	(2,643)	-	-	(2,643)
Other property investment income/(expense):				
Straight-line lease income	852	-	-	852
Lease incentive and lease cost amortisation	(5,411)	-	-	(5,411)
Other expenses:				
Amortisation of finance costs	(1,861)	-	-	(1,861)
Employee options expense	-	(296)	(43)	(339)
Amortisation and depreciation	-	(482)	(70)	(552)
Net tax losses utilised	-	(1,508)	-	(1,508)
<b>Total adjustments</b>	<b>(38,779)</b>	<b>(2,286)</b>	<b>(4,512)</b>	<b>(45,577)</b>
<b>Profit/(loss)</b>	<b>26,703</b>	<b>634</b>	<b>(8,284)</b>	<b>19,053</b>
<b>Segment assets and liabilities</b>				
<b>Total assets</b>	<b>1,253,169</b>	<b>24,285</b>	<b>5,374</b>	<b>1,282,828</b>
<b>Total liabilities</b>	<b>701,065</b>	<b>4,862</b>	<b>5,494</b>	<b>711,421</b>
<b>Other segment information</b>				
Investments in jointly controlled entity and associates	56,775	27	-	56,802
Acquisitions of non-current segment assets:				
Investment properties	3,542	-	-	3,542
Inventories	-	-	4,925	4,925
Investments at fair value through profit or loss	2,599	-	-	2,599
Property, plant and equipment	-	253	-	253
Intangibles	-	288	-	288
	<b>6,141</b>	<b>541</b>	<b>4,925</b>	<b>11,607</b>

(1) Segment profit/(loss) is based on income and expenses excluding adjustments for unrealised fair value adjustments and write downs, gains or losses on sale of investments, non-cash income and expenses. The adjusting items may vary from time to time based on changes to accounting standards and management's assessment as to the nature of the item.

2009	Property Investment \$'000	Funds Management \$'000	Property Development \$'000	Consolidated \$'000
<b>Segment results</b>				
<b>Segment revenue and other income</b>				
Sales – external customers	114,585	4,863	2,847	122,295
Sales – intersegmental	793	9,852	-	-
Profit of equity accounted entities (before adjustments)	7,008	-	-	7,008
Distributions	658	-	-	658
Interest	10,741	1,232	-	11,973
Other income	6,260	1	-	6,261
<b>Total segment revenue and other income</b>	<b>140,045</b>	<b>15,948</b>	<b>2,847</b>	<b>148,195</b>
<b>Segment expenses</b>				
Property expenses and outgoings	17,021	-	-	17,021
Property development costs	-	-	3,874	3,874
Property administration costs	1,155	-	-	1,155
Intersegmental costs	9,852	793	-	-
Funds management commissions	-	385	-	385
Employee benefits expense	-	8,693	1,270	9,963
Finance costs	48,781	98	-	48,879
Other	-	2,471	361	2,832
<b>Total segment expenses</b>	<b>76,809</b>	<b>12,440</b>	<b>5,505</b>	<b>84,109</b>
Income tax expense	-	325	-	325
<b>Segment profit/(loss) <sup>(1)</sup></b>	<b>63,236</b>	<b>3,183</b>	<b>(2,658)</b>	<b>63,761</b>
<b>Reconciliation to reported profit/(loss)</b>				
Fair value adjustments/write downs:				
Investment properties	(104,288)	-	-	(104,288)
Interest rate derivatives	(22,479)	-	-	(22,479)
Available-for-sale financial assets	(3,663)	-	-	(3,663)
Investments at fair value through profit or loss	(3,107)	-	-	(3,107)
Loan receivable	-	-	(4,890)	(4,890)
Property development inventories/provision	-	-	(11,463)	(11,463)
Equity accounted investments	(20,237)	(232)	-	(20,469)
Other property investment income/(expense):				
Straight-line lease income	1,716	-	-	1,716
Lease incentive and lease cost amortisation	(4,303)	-	-	(4,303)
Other expenses:				
Amortisation of finance costs	(1,415)	-	-	(1,415)
Employee options expense	-	(203)	(30)	(233)
Amortisation and depreciation	-	(475)	(70)	(545)
Net tax losses utilised	-	(2,133)	-	(2,133)
<b>Total adjustments</b>	<b>(157,776)</b>	<b>(3,043)</b>	<b>(16,453)</b>	<b>(177,272)</b>
<b>Profit/(loss)</b>	<b>(94,540)</b>	<b>140</b>	<b>(19,111)</b>	<b>(113,511)</b>
<b>Segment assets and liabilities</b>				
<b>Total assets</b>	<b>1,277,284</b>	<b>31,517</b>	<b>22</b>	<b>1,308,823</b>
<b>Total liabilities</b>	<b>758,804</b>	<b>10,158</b>	<b>268</b>	<b>769,230</b>
<b>Other segment information</b>				
Investments in jointly controlled entity and associates	58,292	3	-	58,295
Acquisitions of non-current segment assets:				
Investment properties	47,642	-	-	47,642
Inventories	-	-	4,328	4,328
Investments at fair value through profit or loss	2,411	-	-	2,411
Property, plant and equipment	-	99	-	99
Intangibles	-	362	-	362
	<b>50,053</b>	<b>461</b>	<b>4,328</b>	<b>54,842</b>

(1) Segment profit/(loss) is based on income and expenses excluding adjustments for unrealised fair value adjustments and write downs, gains or losses on sale of investments, non-cash income and expenses. The adjusting items may vary from time to time based on changes to accounting standards and management's assessment as to the nature of the item.

Segment revenue and other income reconciles to total revenue and other income as follows:

	2010 \$'000	2009 \$'000
Total segment revenue and other income	<b>144,069</b>	148,195
Reconciliation to reported revenue and other income		
Straight-line lease income	<b>852</b>	1,716
Lease incentive and lease cost amortisation	<b>(5,411)</b>	(4,303)
Gain on sale of available-for-sale financial assets	<b>3,431</b>	-
Fair value net gain from investments at fair value through profit or loss	<b>836</b>	-
Increase in recoverable amount of loans receivable	<b>1,932</b>	-
Share of profit of equity accounted entities	<b>(2,506)</b>	(7,008)
Other	<b>641</b>	524
<b>Total revenue and other income</b>	<b>143,844</b>	139,124

## 37. Commitments for Expenditure

### (a) Finance leases

Commitments in relation to finance leases are payable as follows:

Within one year	-	20
Later than one year but not later than five years	-	-
Minimum lease payments	-	20
Future finance charges	-	-
<b>Recognised as a liability</b>	<b>-</b>	<b>20</b>
Representing lease liabilities		
Current	-	20
Non-current	-	-
	<b>-</b>	<b>20</b>

Finance leases comprise leases over items of plant and equipment under normal commercial terms and conditions.

### (b) Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases in existence at the reporting date but not recognised as liabilities are payable as follows:

Within one year	<b>59</b>	69
Later than one year but not later than five years	<b>143</b>	173
	<b>202</b>	242

Operating leases primarily comprised the lease of the Group's premises. The Company has entered into a number of leases with the Trust and its subsidiaries and as such the commitment is no longer recognised on consolidation following stapling. Operating lease commitments of the Company are paid for and recognised as expenses by a controlled entity.

### (c) Capital expenditure commitments

Commitments in relation to capital expenditure on investment properties contracted for at the reporting date but not recognised as liabilities amounted to \$24,750,000 (2009: \$nil) and is payable within 12 months.

## 38. Business Combinations

On 18 March 2010 the Group acquired 100% ownership of the Cromwell Altona Trust ("CAT"), an unlisted trust domiciled in Australia. The primary asset of the trust is land located at Maidstone Street, Altona, VIC. The trust was acquired from Cromwell Property Fund ("CPF"), an associate of the Group.

The consideration transferred was \$245,000 reflecting the fair value of the net assets of CAT at acquisition date. As a result of the acquisition, the Group seeks to benefit from holding the land with the prospect of development and value enhancement and subsequent sale in the foreseeable future.

The Group has recognised the fair values of the identifiable assets and liabilities of CAT based upon the best available information at the acquisition date. The business combination accounting is as follows:

	\$'000
<b>Purchase consideration:</b>	
Cash paid	245
<b>Total purchase consideration</b>	<b>245</b>
<b>Assets and liabilities acquired:</b>	
Cash	19
Prepayments	129
Inventory (land held for development and resale) – refer note 10	4,800
Trade payables	(225)
Loan payable to the Group – refer note 8(a)	(4,478)
<b>Net assets acquired</b>	<b>245</b>

The carrying amount of assets and liabilities acquired was equivalent to their fair value.

### The cash flows on acquisition were as follows:

Cash acquired from business combination	19
Cash paid	(245)
<b>Payments for controlled entity, net of cash acquired</b>	<b>226</b>

Prior to the acquisition, CAT leased the land to the Group under a development agreement whereby the Group could develop the land on the basis CPF would fully recover its costs – see note 22. Under the development agreement the Group leased the property from CPF at a cost of \$800,000 per annum and paid all property outgoings. On acquisition of CAT the lease was terminated. CAT contributed revenue and other income of \$1,000 and a loss of \$48,000 to the Group for the period from 18 March 2010 to 30 June 2010. Had the acquisition occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have shown a reduction in property development costs of \$626,000 and a corresponding increase in profit.

Included in the net assets acquired was land located at Maidstone Street, Altona, Vic. The fair value of the land of \$4,800,000 was based on an independent valuation performed in November 2009. The Group expects to either develop or sell the land in the future. The land is accounted for by the Group as inventory (refer note 10)

There were no business combinations in the prior year.

## 39. Contingent Liabilities

The Directors are not aware of any material contingent liabilities of the Group.

## 40. Auditor's Remuneration

	2010 \$	2009 \$
During the year the following fees were paid or payable for services provided by the auditor of the Group (Johnston Rorke) and its related entities:		
<b>Audit Services</b>		
<i>Johnston Rorke</i>		
Auditing or reviewing financial reports	<b>254,000</b>	327,000
Auditing of controlled entities' AFS licences	<b>7,000</b>	5,500
Auditing of controlled entities' compliance plans	<b>32,500</b>	27,500
	<b>293,500</b>	360,000
<b>Other Services</b>		
<i>Johnston Rorke</i>		
Tax compliance services	-	860
Other	-	3,200
	-	4,060

## 41. Subsequent Events

Since balance date and up to the date of this report, the following transactions have occurred:

### (a) Acquisition of Investment Properties from CPF

During the 2010 financial year the Group announced a proposal to acquire certain assets from Cromwell Property Fund ("CPF"). In accordance with the proposal, the Group entered into a purchase contract to acquire 321 Exhibition Street, Melbourne ("the Exhibition Property") and a unit sale deed to acquire one third of the units the Group did not already own in the TGA Planned Investment, which owns the TGA Complex, Canberra ("the TGA Property"). At balance date the proposal was subject to satisfaction of certain conditions, including approval of security holders. The expected impact of these acquisitions on the Group was set out in an Explanatory Memorandum lodged with ASX on 8 June 2010.

Subsequent to balance date, security holders approved the proposal and settlement was completed in July 2010. The acquisition of the Exhibition Property for \$90,200,000 was funded by way of repayment of \$10,200,000 of the loan receivable from CPF and a new debt facility for \$80,000,000. As part of the proposal the loan facility to CPF was extended and the balance of \$19,800,000 now expires in June 2012. The acquisition of one-third interest in TGA was effected by way of an assignment of CPF's debt facility of \$12,973,000 secured against the TGA property and payment of \$12,065,000.

Details of the purchase consideration for the one-third interest in TGA Planned Investment are set out below. The Trust already held a two-thirds interest in the TGA Planned Investment which was previously accounted for using the equity method – see note 15.

	\$'000
<b>Purchase consideration:</b>	
Cash paid	<b>12,065</b>
Assignment of debt	<b>12,973</b>
Investment already held in TGA – see note 15	<b>49,872</b>
	<b>74,910</b>
<b>Assets and liabilities recognised</b>	
Cash	<b>103</b>
Prepayments	<b>20</b>
Investment property	<b>75,000</b>
Trade and other payables	<b>(213)</b>
	<b>74,910</b>

### **(b) Equity raising**

On 12 July 2010 the Group announced an institutional placement ("Placement") to raise up to \$80,000,000 and a rights issue ("Rights Issue") to raise a further amount up to a combined total of \$120,000,000. The Placement was completed on 14 July 2010 with a total of \$54,000,000 subscribed at \$0.75 per stapled security, less issue transaction costs of \$2,680,000. The Rights Issue was completed by the Group on 18 August 2010 with approximately \$13,720,000 subscribed at \$0.72 per stapled security. All new securities issued under the Placement and Rights Issue rank equally with existing securities for the September quarter distribution.

As a result of the Rights Issue, an additional 19,056,000 stapled securities are expected to be issued by the Group at \$0.72 per stapled security, on 19 August 2010. All new securities issued under the Placement and Rights Issue rank equally with existing securities for the September quarter distribution.

Placement participants are also able to subscribe for approximately 68,927,000 additional stapled securities, being the shortfall from the Rights Issue not taken up by Rights Holders, at \$0.72 per stapled security, for up to 10 weeks after close of the Rights Issue. No additional stapled securities have been issued to Placement participants up to the date of this report.

### **(c) Acquisition of Qantas Headquarters, Mascot, NSW**

Cromwell has entered into a binding agreement to acquire the investment property known as Qantas Headquarters in Mascot, NSW for approximately \$143,000,000, and expects to complete the acquisition on 20 August 2010 by utilising the proceeds of the capital raising together with a new debt facility of \$84 million. In addition, Cromwell has agreed to fund lease incentives totalling approximately \$25,600,000 payable under a new 10 year lease agreed with Qantas. These costs are expected to be payable over the next 12-18 months as underlying works are completed in conjunction with the tenants requirements.

### **(d) Interest rate hedging**

The Group entered into additional interest rate derivatives subsequent to balance date. The new contracts comprised:

- An interest rate swap for \$80 million at 5.00% for three years commencing August 2010; and
- An interest rate swap for \$64 million at 5.00% for three years commencing September 2010.

In addition, the Group had entered into an interest rate derivative prior to balance date, which had an effective commencement date of July 2010. This derivative comprised an interest rate cap over \$300 million, with interest capped at each 30 day period at the lower of 5.00% or the prevailing bank bill swap bid rate at the time.

The financial effects of subsequent events were not recognised at balance date.

# Directors' Declaration

## Directors' Declaration

In the Directors' opinion:

- (a) the attached financial statements and notes and the Remuneration Report in the Directors' report are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

The Directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2010 required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



P.L. Weightman  
Director

Dated this 18th day of August 2010

## **Independent Auditor's Report to the Members of Cromwell Group**

### **Report on the Financial Report**

Cromwell Group comprises the consolidation of Cromwell Corporation Limited and the entities it controlled at the end of the year or from time to time during the financial year, including Cromwell Diversified Property Trust and entities it controlled at the end of the year or from time to time during the financial year, which form the consolidated entity ("Cromwell Group" or "the consolidated entity").

We have audited the accompanying financial report of Cromwell Group, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### **Directors' responsibility for the financial report**

The directors of Cromwell Corporation Limited and the directors of Cromwell Property Securities Limited, the Responsible Entity of Cromwell Diversified Property Trust, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### **Auditor's opinion**

In our opinion:

- (a) the financial report of Cromwell Group is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in part 11 of the director's report for the year ended 30 June 2010. The directors are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's opinion**

In our opinion the Remuneration Report of Cromwell Corporation Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

### **JOHNSTON RORKE**

Chartered Accountants



### **RCN WALKER**

Partner

Brisbane, Queensland

18 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

# Corporate Governance Statement

## Corporate Governance Statement

Cromwell Group through its Board, Board Committees and management is committed to meeting stakeholders' expectations of sound corporate governance, while seeking to achieve superior financial performance and long term prosperity.

The ASX Corporate Governance Council has Corporate Governance Principles and Recommendations which are designed to optimise corporate performance and accountability in the interests of shareholders and the broader economy.

The recommendations are not prescriptive. However listed entities are required to disclose the extent of their compliance and, if any ASX recommendations have not been followed, must give reasons for not following them.

This statement sets out the extent to which the Group has followed the ASX recommendations during this financial year, identifies any of the ASX recommendations which were not followed and provides reasons.

### Principle 1 – Lay solid foundations for management and oversight

The Boards of Cromwell Corporation Limited and Cromwell Property Securities Limited each have common membership. Responsibility for corporate governance and the internal working of each Group entity rests with the relevant Board.

The Board has adopted a formal charter which details the composition, values and functions of the Board.

The Board holds a scheduled meeting each month and additional meetings are convened as required. Board papers are designed to focus Board attention on key issues and standing items include major strategic initiatives, corporate governance, compliance, reports from each functional division and financial performance.

Day-to-day management of the Group's affairs and implementation of corporate strategy and policy initiatives are delegated by the Board to management under the direction of the Chief Executive Officer. This has been formalised in the Board Charter and a Delegations of Authority policy. The effectiveness of both these documents is reviewed by the Board annually.

Each director has received a letter of appointment which details the key terms of their appointment. The CEO and CFO (both of whom are executive directors) have formal job descriptions and letters of appointment outlining the terms of their employment.

A formal induction program allows new senior executives to participate fully and actively in decision-making as soon as possible. The Group has an established process for the performance review of all staff. The performance of key executives is evaluated at least annually, in addition to regular feedback during the performance period. At the time of the reviews, the professional development of the executive is also discussed, along with any training which could enhance their performance. Both qualitative and quantitative measures are used in the evaluation. A performance evaluation for each senior executive has taken place during the reporting period and was subject to the review process explained elsewhere in this report.

Cromwell Property Securities Limited acts as responsible entity for a number of registered managed investment schemes. Cromwell Funds Management Limited also has a financial services licence which allows it to act as responsible entity for managed investment schemes. Both companies are wholly owned subsidiaries of Cromwell Corporation Limited. The roles and responsibilities of a responsible entity are set out in the relevant scheme's constitution and compliance plan. Day-to-day management of the schemes has been delegated to management, under the direction of the Chief Executive Officer. This has been formalised in the Delegations of Authority policy mentioned above.

A compliance committee comprised of a majority of external independent members monitors the extent to which the responsible entity complies with each managed investment scheme's compliance plan and reports findings to the responsible entity. The roles and responsibilities of the compliance committee are outlined in a formal charter which is reviewed annually by the committee and the Board.

#### What you can find on our website:

- Corporate Governance Statement
- Board Charter
- Compliance Committee Charter

## Principle 2 – Structure the board to add value

The Board is comprised of an independent Chairman, three other independent directors (David Usasz, Michelle McKellar and Robert Pullar) and four non-independent directors (Paul Weightman, Daryl Wilson, Richard Foster and Marc Wainer). Profiles of each director, including details of their skills, expertise and experience can be found in the directors' report.

The Group recognises that independent directors are important in assuring securityholders that the Board properly fulfils its role. The independent directors (including the Chairman) are considered to meet the test of independence under the ASX Guidelines. Each year, their independence is assessed and the independent directors also confirm to the Board, in writing, their continuing status as an independent director. They have each undertaken to inform the Board as soon as practical if they think that their status as an independent director has or may have changed.

In assessing a director's independent status, the Board has adopted a materiality threshold of 5% of the Group's net operating income or 5% of the Group's net tangible assets (as appropriate).

Although, with Mr Wainer's appointment, the Board no longer has a majority of independent directors it should be noted that Mr Foster ceased to act in an executive capacity during the year. Even though Mr Foster does not yet meet the ASX Guidelines for independence, the Board is satisfied that Mr Foster brings an independent judgment to bear on board decisions and that his previous business relationships do not interfere with his ability to make independent decisions.

Each director's qualifications, experience, special responsibilities and attendances at Board meetings are detailed in the directors' report. The Board considers that its members comprise directors with an appropriate mix of skills, personal attributes and experience that allow the directors individually, and the Board, collectively to discharge their duties effectively and efficiently. The Board is structured with individuals who understand the business of the Group and the environment in which it operates and who can effectively assess management's performance in meeting agreed objectives and goals. Despite the Board not having a majority of independent members, the directors do not feel that the appointment of another independent director at this time would be of any benefit to securityholders.

On an ongoing basis directors are provided with updates on legal and corporate developments relevant to the Group.

### Independent professional advice

If warranted, the Board may resolve to obtain professional advice about the execution of the Board's responsibilities at the Group's expense. Directors also have the right to seek independent professional advice. Subject to the Chairman's approval, which will not be unreasonably withheld, it will be at the Group's expense. Where appropriate, such advice is shared with the other directors.

### Board Committees

Three Board Committees have been established to assist in the execution of the Boards' responsibilities. The membership of each Committee and attendance at Board and Committee meetings is set out in the directors' report.

It is the policy of the Board that the Investment Committee, Nomination and Remuneration Committee and the Audit and Risk Committee consist of a majority of independent directors (other than the Chairman). Each committee has a charter which includes a description of its duties and responsibilities.

The Board charter has a description of the Board's policies and procedures for the selection, appointment and re-election of directors.

### Performance of the Board

The Board has undertaken its annual formal performance assessment, which includes an assessment of the Board, Board Committees and individual directors. All directors completed a questionnaire and were able to make comments or raise any issues they had regarding the Board or a Board Committee's operations. The results were compiled by the Company Secretary and discussed at a subsequent Board meeting. The CEO and CFO also participated in an annual performance review with the Chairman (who had consulted with the other directors). The review process was the same as for senior executives.

As necessary, directors are provided with training sessions on key issues relevant to the Group's operations. Directors also have access to the internal training sessions provided by the Group's General Counsel and/or Compliance Manager.

When a director vacancy occurs the Board, through the Nomination and Remuneration Committee, identifies the particular skills, experience and expertise that will best complement Board effectiveness and then identifies candidates who can meet those criteria. Appointment of directors is documented by way of a formal agreement between the Group and each director, dealing with such issues as performance expectations, conflicts of interest, disclosure obligations, remuneration and Group policies. The Board's policy and procedure for the selection, appointment and re-election of Directors are set out in the Board charter.

### What you can find on our website:

- Remuneration and Nomination Committee Charter
- Board Charter

## Principle 3 – Promote ethical and responsible decision making

The Group's directors and staff are required to maintain high ethical standards of conduct. The various practices and policies of the Group reinforce this. All directors and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Group.

To reinforce this culture the Group has established a Code of Conduct to provide guidance about the attitudes and behaviour necessary to maintain stakeholder confidence in the integrity of the Group and comply with the Group's legal obligations.

The Code of Conduct is made available to all staff and they are reminded of the importance of the Code of Conduct on a regular basis. Appropriate standards are also communicated and reinforced to all employees at induction programs and staff meetings.

The Board has approved a Breach Reporting Policy and a Whistleblower's Policy. The policies are on the Group's intranet site and all staff have been made aware of them. All staff have received training with regard the Breach Reporting Policy. These policies actively encourage and support reporting to appropriate management of any actual or potential breaches of the Group's legal obligations and / or of the Code of Conduct.

Further, the Board has approved a Securities Trading Policy under which directors and staff are restricted in their ability to deal in the Group's securities. Appropriate black out periods are in place during which directors and staff are not permitted to trade. All staff are aware of the policy and receive training annually. The policy is reviewed annually.

Compliance with Board policies is monitored via monthly checklists completed by key management and by investigation following any report of a breach by an employee. Compliance monitoring is undertaken by the Legal & Compliance team under the direction of the Company Secretary / General Counsel who reports directly to the Board.

### What you can find on our website:

- Code of Conduct
- Securities Trading Policy
- Whistleblower's Policy

## Principle 4 – Safeguard integrity in financial reporting

The Board has responsibility for the integrity of the Group's financial reporting. To assist the Board in discharging this function the following process has been adopted.

### Audit and Risk committee

An Audit and Risk committee has been appointed by the Board and has responsibility for overseeing the quality and integrity of the accounting, auditing, financial reporting and compliance and risk management practices of the Group. The Audit and Risk Committee is comprised of three independent directors. The names, qualifications and attendance at meetings of the members of the Audit and Risk Committee is detailed in the directors' report.

The responsibilities, roles, composition and structure of the Audit and Risk Committee are set out in its charter. The charter includes information on the procedures for selection and appointment of the external auditor and for the rotation of external audit engagement partners.

Minutes are kept of all Committee meetings, including meetings of the Audit and Risk Committee, and presented at the next Board meeting. The Committee reports to the Board on all matters relevant to its role and responsibilities.

The external auditor has declared its independence to the Board and the Committee. The Board is satisfied that the standards for auditor independence and associated issues have been complied with. The auditor attends the Group's Annual General Meeting and is available to answer securityholder questions on the conduct of the audit and the content and preparation of the auditor's report.

The Chief Executive Officer and the Chief Financial Officer state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial position and operational results and are in accordance with relevant accounting standards.

Details of the risk monitoring duties of the Audit and Risk Committee are set out in principle 7 below.

### What you can find on our website:

- Audit and Risk Committee Charter

## Principle 5 – Make timely and balanced disclosure

The Group believes that all stakeholders should be informed of all the major business events and risks that influence the Group in a timely and widely available manner.

In particular, the Group strives to ensure that any price-sensitive material for public announcement is lodged with the ASX before external disclosure elsewhere and posted on the Group's website as soon as practical after lodgement with the ASX.

The Group has a market disclosure protocol which includes policies and procedures designed to ensure compliance with the disclosure requirements in the ASX Listing Rules.

The ASX liaison person is the Group's Company Secretary.

### What you can find on our website:

- Market Disclosure Protocol

## Principle 6 – Respect the rights of shareholders

The Group has an investor relations strategy, approved by the Board, which has been designed to generate and foster a long-term close association with securityholders and investors in the Group's financial products.

The Group aims to keep securityholders informed of the Group's performance and all major developments in an ongoing manner. In this regard, securityholders receive regular reports, and all documents that are released publicly are made available on the Group's website. The Group uses its website as a means of providing information to securityholders and the broader investment community.

Securityholders are also encouraged to participate in the annual general meeting to ensure a high level of accountability and identification with the Group's strategies and goals. Notices of meetings will be accompanied by explanatory notes on the items of business and together they will seek to accurately and clearly explain the nature of the business of the meeting.

A copy of the AGM notice is sent to the Company's external auditor as required by law. The current audit partner attends the AGM and is available to answer questions from securityholders about the audit. The Chairman reminds securityholders of this opportunity at the commencement of each AGM.

## Principle 7 – Recognise and manage risks

The Group is exposed to various risks across its business operations and recognises the importance of effectively identifying and managing those risks. To this end, the Group has adopted an Enterprise Risk Management Policy, which is a general statement of the Group's philosophy with respect to risk management practices. There are also a wide range of underlying policies and procedures which are designed to mitigate the Group's material business risks.

Risks are identified and assessed so that informed decisions on risk issues can be made. The objective of the Group's approach to risk management is to manage the level of risk within acceptable parameters rather than seeking to eliminate risk.

Under the direction of the Chief Executive Officer, management is responsible for identifying relevant business risks, designing controls to manage those risks and ensuring those controls are appropriately implemented. The risk management system operates in accordance with Australian / New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management). Although management is expected to identify new or emerging risks and put appropriate controls in place on an ongoing basis, at least annually the Legal & Compliance team will co-ordinate a formal review by all business divisions of their business risks and mitigating controls.

The Legal & Compliance team monitors the adequacy of the risk management system and fulfils the internal audit function within Cromwell Group. The Company Secretary reports on the risk management system (including internal audit) to the Audit and Risk Committee at least quarterly. The internal audit function involves both active testing of the adequacy of controls for those risks which are inherently extreme or high as well as having management (monthly, quarterly or annually as appropriate) confirm that the assessment of identified risks and their controls remain appropriate and identify any new controls or risks.

Under the direction of the Company Secretary, the Legal & Compliance team also implement and monitor compliance arrangements which have been designed to ensure that the Group meets its legal obligations. Those compliance arrangements include key management staff completing a compliance checklist each month and independent compliance testing. The Audit and Risk Committee is responsible for oversight of the risk management and internal control systems. Responsibilities include:

- a) overseeing the establishment and implementation of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing the efficiency and effectiveness of those systems;
- b) regularly reviewing and updating the risk profile; and
- c) monitoring the effectiveness of the internal risk control system.

Although the Board has delegated operational oversight of the compliance framework to the committee, the Board will satisfy itself annually, or more frequently if required, that the risk management system is sound.

A compliance committee assists the Board of Cromwell Property Securities Limited in overseeing the risk management framework of the registered managed investment schemes for which it acts as the responsible entity. The compliance committee monitors compliance with the compliance plans and the underlying compliance framework. The Board receives regular reports from the compliance committee.

### **Chief Executive Officer and Chief Financial Officer Declaration**

The Chief Executive Officer and the Chief Financial Officer have provided the Board with written confirmation that:

- a. in their view, the Group is effectively managing its material business risks;
- b. their statement given to the Board on the integrity of the Group's statements (pursuant to section 295A of the Corporations Act) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- c. the Group's risk management and internal compliance and control system is operating effectively in all material respects in relation to the Group's material business risks.

It should be noted that the declarations from the Chief Executive Officer and Chief Financial Officer are reasonable rather than absolute assurances that the risk management and internal compliance and control system is operating effectively because it is impossible for all weaknesses to be detected. The Chief Executive Officer and Chief Financial Officer must base their conclusions on their own observations and judgement and the outcome of the compliance and controls testing and reviews undertaken by the Legal & Compliance team.

### **What you can find on our website:**

- Audit and Risk Committee Charter
- Enterprise Risk Management Policy

## **Principle 8 – Remunerate fairly and responsibly**

The Group's remuneration policy is determined by the Nomination and Remuneration Committee which makes recommendations to the Board:

- a. in the case of non-executive directors, for consideration of any increase by securityholders at the AGM; and
- b. in the case of executives, for decision.

External professional advice is sought from experienced consultants, where appropriate, to assist in the committee's and the Board's deliberations.

The Group's remuneration policy links the nature and amount of executive directors' and officers' remuneration to the Group's financial and operational performance.

The Group operates a legacy Employee Share Ownership Plan and Tax Exempt Plan as well as a current Performance Rights Plan. The Group does not currently pay any other form of security-based remuneration.

### **Nomination and Remuneration Committee**

The Board has established a Nomination and Remuneration Committee operating under an approved written charter that incorporates various responsibilities, including reviewing and recommending compensation arrangements for the directors, the Chief Executive Officer and key executives and setting remuneration policy.

Meetings of the committee are attended, by invitation, by appropriate professional advisers from time to time.

Minutes of all committee meetings are available to the Board and the Chairman of the committee reports to the Board after each committee meeting.

Details of the number of committee meetings and attendances by directors are included in the directors' report.

### **Non-executive director remuneration**

The structure of non-executive directors' remuneration and that of executive directors is set out in the relevant section of the directors' report.

Details of the nature and amount of each element of the remuneration of each director of the Group and other key management personnel of the Group are disclosed in the relevant section of the directors' report.

There is no retirement benefit scheme for non-executive directors other than payment of statutory superannuation. The Boards undertake an annual review of their performance together with an assessment of the Group's executive management.

### **Executive directors and senior executive remuneration**

The Group's remuneration policies and practices in relation to executive directors and senior executives are disclosed in the directors' report. Further, details of the nature and amount of remuneration paid to those executives is set out in the directors' report.

For executive directors and key staff, formal performance objectives are set annually with discussion on their performance taking place at assessment time.

The Chief Executive Officer and the Chief Financial Officer may participate in the Performance Rights Plan discussed above. Previous participation was approved by shareholders at an annual general meeting. Pursuant to the ASX Listing Rules, any further participation would also need to be approved by securityholders.

### **Managed funds**

CPS is entitled to various fees for discharging the role of responsible entity. Further, various other Group entities are entitled to fees for providing services to managed funds such as property and asset management, accounting, registry and transactional management.

All related party transactions are tested by reference to whether they meet market standards.

Fees are calculated in accordance with a defined formula under the Constitution for the relevant schemes or agreements which have been assessed as being on arm's length or better terms. Fees are fully disclosed to investors at inception and continue to be disclosed to investors in regular reporting.

CPS is also entitled to be reimbursed from the funds for expenses incurred in the proper performance of its duties.

### **What you can find on our website:**

- Nomination and Remuneration Committee Charter

# Securityholder Information

## Securityholder Information

The securityholder information set out below was applicable as at 4 October 2010.

### Spread of stapled securityholders

Category (size of Holding)	Number of Holders	Number of Securities
1 – 1,000	446	184,929
1,001 – 5,000	746	2,249,338
5,001 – 10,000	887	6,989,283
10,001 – 100,000	7,230	241,820,351
10,001 – 9,999,999,999	1,134	652,743,466
	10,443	903,987,367

### Unmarketable Parcels

The number of stapled securityholdings held in less than marketable parcels was 319.

### Substantial Securityholders

Holder	Stapled Securities	Date of Notice
Redefine Australian Investments Limited	178,833,333	18 August 2010
APN Funds Management Limited	54,463,571	31 August 2010

### Voting Rights

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a pool each security shall have one vote.

### 20 Largest Securityholders

Rank	Holder	Number of Stapled Securities Held	% Held of Issued Stapled Securities
1	Redefine Australian Investments Limited	178,833,333	19.78%
2	RBC Dexia Investor Services Australia Nominees Pty Limited <APN A/C>	54,738,571	6.06%
3	HSBC Custody Nominees (Australia) Limited	20,249,686	2.24%
4	National Nominees Limited	17,358,827	1.92%
5	Stara Investments Pty Ltd	10,513,191	1.16%
6	J P Morgan Nominees Australia Limited	9,457,095	1.05%
7	AWJ Family Pty Ltd <Angus W Johnson Family A/C>	9,361,132	1.04%
8	Humgoda Investments Pty Ltd	7,282,126	0.81%
9	Trial Developments Pty Ltd <Creagh Family A/C>	6,395,810	0.71%
10	RJP Family Pty Ltd <Robert J Pullar Family A/C>	6,392,441	0.71%
11	Kovron Pty Ltd <J M Creagh Super Fund A/C>	6,060,975	0.67%
12	Panmax Pty Ltd <Panmax Pty Ltd S/Fund A/C>	5,703,707	0.63%
13	Mr Philip John Wallace + Mrs Bernadette Mary Wallace <Wallace Super Fund A/C>	4,883,450	0.54%
14	Citicorp Nominees Pty Limited	4,479,952	0.50%
15	Commercial Bureau Pty Ltd <Superannuation Fund A/C>	3,968,087	0.44%
16	Stara Investments Pty Ltd	3,735,625	0.41%
17	Balcony Developments Pty Ltd <Kangeroo Super Fund A/C>	3,463,767	0.38%
18	Mr Humphrey Firkins + Mr Jamie Dorrington <G Firkins Educational A/C>	3,377,000	0.37%
19	Mr Neal John Ambrose + Mrs Anne Christine Ambrose <Nj & Ac Ambrose S/Fund A/C>	3,262,754	0.36%
20	AWJ Family Pty Ltd <Angus W Johnson Family A/C>	3,007,457	0.33%
		<b>362,524,986</b>	<b>40.10%</b>

## Provision of information for Securityholders

Cromwell is committed to ensuring its securityholders are fully informed on the financial and operational status of the Group as well as its future prospects, in accordance with the rules and guidelines of the Australian Securities Exchange (ASX) and other regulatory bodies. The following information can also be found on the Cromwell website at [www.cromwell.com.au](http://www.cromwell.com.au).

### ASX Listing

Cromwell Group is listed as a Stapled Security on the ASX (Code: CMW).

### Securityholding Details

Securityholders can access information on their holdings and update their details through Cromwell's share registry provider:

#### Link Market Services Limited

Level 15, 324 Queen Street

BRISBANE QLD 4000

AUSTRALIA

Telephone: 1300 550 841

Outside Australia: +61 2 8280 7124

Fax: +61 2 9287 0303

Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Email: [cmw@linkmarketservices.com.au](mailto:cmw@linkmarketservices.com.au)

Securityholders can change or update details relating to their address, bank account and Tax File Number (TFN), Australian Business Number (ABN) or exemption in a number of ways:

- Send written authorisation to the Registry quoting your SRN / HIN and signing the request;
- Log on to [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au); or
- Call the Registry.

You will have to verify your identity by providing your personal details. Bank detail changes must be requested in writing or electronically and cannot be made over the phone.

Securityholders can also use the Link Market Services website to check current and previous holding balances, communication delivery preferences, security prices, TFN/ABN details and to download a variety of forms.

### Quoting of TFN, ABN or exemption details

Securityholders are not obliged to quote their TFN, ABN or exemption. However, if these details are not lodged with the registry, Cromwell is obliged to deduct tax from unfranked portions of dividend payments and distribution payments up to the highest marginal tax rate, depending on residency.

# Securityholder Information

## Securityholder Information

### Distributions/Dividends

#### Cromwell Group Dividends/Distributions

During the year the following distributions/dividends have been paid:

Quarter Ending	Amount per Security	Ex Date	Record Date	Payment Date
30 June 2010	2.0 cents	24 June 2010	30 June 2010	31 August 2010
31 March 2010	2.0 cents	30 March 2010	7 April 2010	14 May 2010
31 December 2009	2.0 cents	23 December 2009	31 December 2009	15 February 2010
30 September 2009	2.0 cents	29 September 2009	6 October 2009	16 November 2009

### Further Information

The Cromwell website provides a comprehensive range of information on the company, past performance and products. The website address is [www.cromwell.com.au](http://www.cromwell.com.au). Requests for further information about the Group, its dealings and key securityholder communications should be directed to:

#### Investor Relations Manager

Cromwell Group  
GPO Box 1093  
BRISBANE QLD 4001  
AUSTRALIA

Telephone: +61 7 3225 7777

Facsimile: +61 7 3225 7788

Email: [invest@cromwell.com.au](mailto:invest@cromwell.com.au)

# Directory

## Board of Directors

Geoffrey H Levy  
Robert J Pullar  
Michelle A McKellar  
David E Usasz  
Paul L Weightman  
W Richard Foster  
Daryl J Wilson  
Marc Wainer  
Michael Flax (alternate for Marc Wainer)

## Secretary

Nicole E Riethmuller

## Share Registry

Link Market Services Limited  
Level 15  
324 Queen Street  
BRISBANE QLD 4000  
AUSTRALIA  
Tel: 1300 550 841  
Fax: +61 2 9287 0303  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Registered Office

Level 19  
200 Mary Street  
BRISBANE QLD 4000  
AUSTRALIA  
Tel: +61 7 3225 7777  
Fax: +61 7 3225 7788  
Web: [www.cromwell.com.au](http://www.cromwell.com.au)

## Listing

The company is listed on the Australian Securities Exchange (ASX: CMW)

## Auditor

Johnston Rorke  
Chartered Accountants  
Level 30, Central Plaza One  
345 Queen Street  
BRISBANE QLD 4000  
AUSTRALIA  
Tel: +61 7 3222 8444  
Fax: +61 7 3221 7779  
Web: [www.jr.com.au](http://www.jr.com.au)

## PRODUCED WITH A CONSCIENCE

This document is printed on the eco-friendly **Mega Recycled** paper by a **Certified Sustainable Green Printer**.



## COVER IMAGE

*Brad Collins leads Cromwell's national team of in-house facilities managers.*

*The photo was taken at the Riverpark Building in Brisbane, which is owned by a Cromwell-managed unlisted property trust.*

**Cromwell**

Cromwell