

The logo for Cromwell, featuring the word "Cromwell" in a white serif font inside a dark blue rounded rectangle with a gold border.

Cromwell

CROMWELL GROUP

annual report 2008

STRENGTH - CONFIDENCE - OPPORTUNITY

Securityholder Enquiries

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

Computershare Investor Services

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E-mail: web.queries@computershare.com.au

Units in the DPT, CPF and PSF are issued by Cromwell Property Securities Limited. 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.

This document is issued by:

Cromwell Group

Cromwell Corporation Limited ABN 44 001 056 980

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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Website: www.cromwell.com.au

E-mail: cromwell@cromwell.com.au

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

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

Cromwell Group's new Chairman - Geoffrey Levy, AO

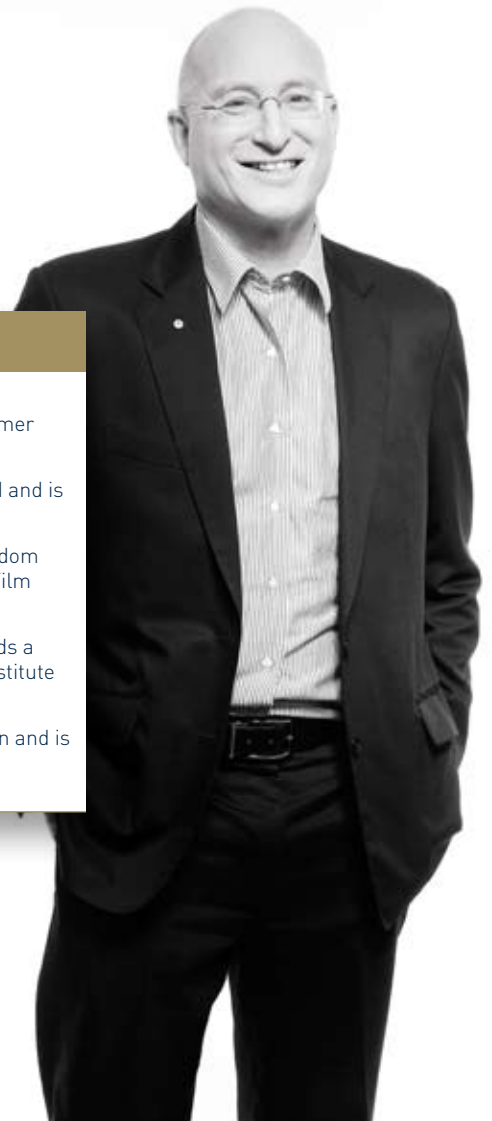
Mr Levy has extensive public company executive and directorship experience and is the former Chief Executive Officer and current Deputy Chairman of Investec Bank (Australia) Ltd.

He is currently Chairman of Speciality Fashion Group Limited and MZL Investments Pty Ltd and is also Deputy Chair of the Australian Sports Anti-doping Authority.

He has previously held Directorships with Mirvac Group Limited, Rebel Sport Limited, Freedom Group Limited, Hoyts Cinemas Limited and Ten Network Holdings Limited, as well as the Film Finance Corporation Australia and Multiple Sclerosis Society of New South Wales.

Mr Levy is a Solicitor of the Supreme Court currently admitted in New South Wales. He holds a Bachelor of Commerce and a Bachelor of Laws and is a Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors.

Aside from his professional commitments, Geoff is involved in film and television production and is well known in the rugby community. Geoff and his wife of 25 years have four children.



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CROMWELL GROUP

STRENGTH - CONFIDENCE - OPPORTUNITY

Chairman's review

This year marks 10 years since the name Cromwell appeared on the Australian Securities Exchange and our first full year as a stapled security. It is also the first year of my stewardship as Chairman and it is my privilege to report this year's financial results.

It is pleasing, in a year that has undoubtedly been a challenging one for many of Cromwell's peers, to be able to present such strong results to securityholders. The Group has earned a record profit from operations of \$70.8 million, in line with forecasts outlined with our 2007 results and rewarded securityholders with a 10 cents per security distribution for the year.

These results reflect the successful strategy of the board and management to maintain Cromwell's focus on our core strengths: Australian commercial property with strong cashflows and minimal short-term expiry, and retail funds management.

Cromwell's high quality assets and active management of the properties and funds continues to provide a strong foundation for the Group, with 81% of 2008 operating earnings coming from recurring property

and funds management income and recurring income expected to increase to 85% of 2009 earnings.

Management's decision to undertake a number of asset sales throughout the 2007 calendar year left the Group in a strong financial position to ride out the current credit crunch and market volatility which began with the collapse of the sub-prime mortgage market in the United States. The opportunistic acquisition of Tuggeranong Office Park at an earnings accretive yield of 10.7% in late June is an excellent example of the opportunities this strategy now affords us.

In January the Group launched an on-market buy-back of up to 10% of the Group's securities as the Board believed that the buy-back would be the optimal way of utilising Cromwell's capital reserves.

Since becoming a stapled security in 2006, the Board has been committed to ensuring that the Group's corporate governance principles are in line with Australian best practice standards.

A key element to achieving this goal has been the appointment of two additional

non-executive directors and my appointment as independent chairman, creating a Board composed predominantly of independent representation.

I would like to thank my fellow board members for their valuable input throughout the year and, as new Chairman, hope I can do justice to the prior achievements of the Group. I look forward to working with Paul and his team to continue to build on these achievements.

Over the past 10 years the Group has built an enviable track record of reliability and success based on a commitment to delivering secure and stable returns to investors, regardless of prevailing market conditions. Our strong, defensive portfolio continues to provide me with confidence that Cromwell can deliver capital and income growth in the years ahead.

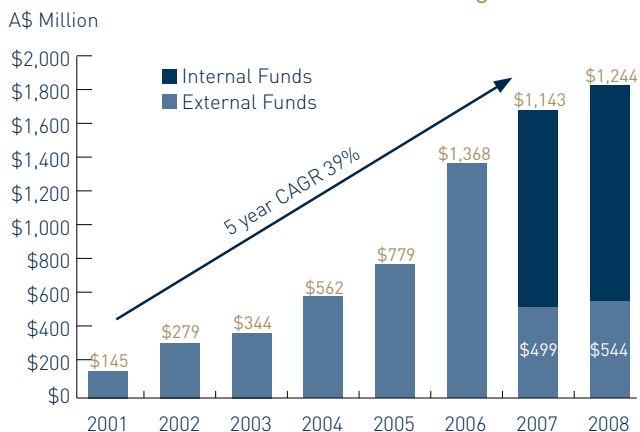


Geoffrey H Levy, AO
Chairman

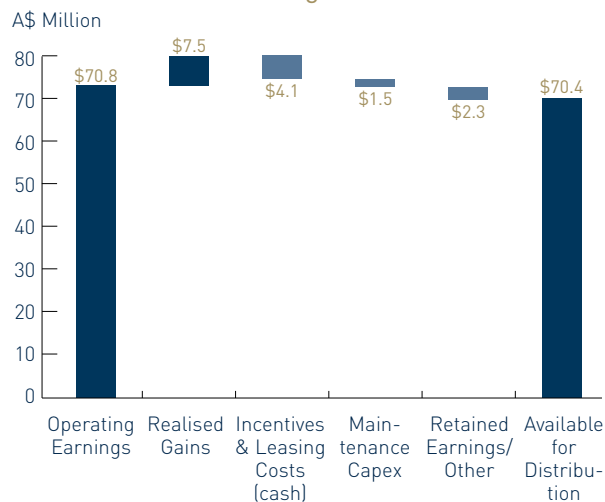
Performance Highlights*

- Full year net profit after tax (NPAT) of \$108.0 million
- Record profit from operations of \$70.8 million
- Total distributions for the year of 10.0 cents per security
- NTA stable at \$1.01

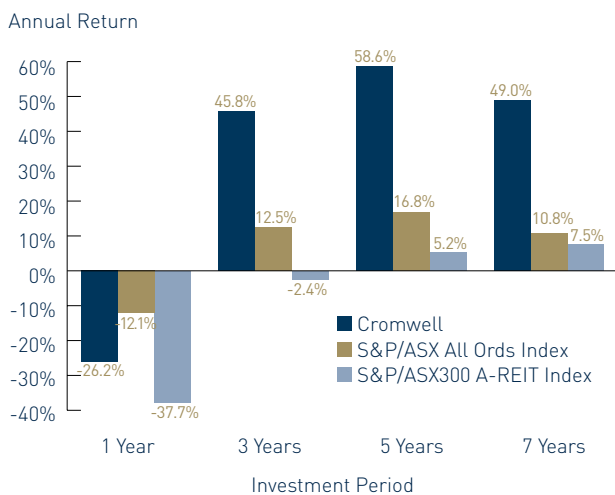
Gross assets under management*



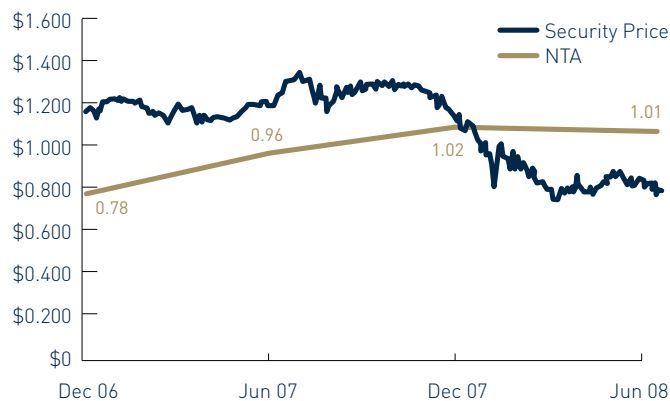
FY08 earnings & distributions*



Total securityholder returns (% per annum)*



Security price vs. NTA per security*



Cromwell has had consistent organic growth throughout its history, with an average compound annual growth rate (CAGR) in assets under management of 32% over the last 3 years and 39% over the last 5 years.

Major FY08 announcements

30 JUNE 2008 **Acquisition of Canberra office park**

Cromwell settles acquisition of Tuggeranong Office Park in Greenway, ACT for \$166.025 million on an initial yield of 10.7% pa.

15 APRIL 2008 **Launch of Property Securities Fund**

Cromwell launches property securities fund to take advantage of strong buying opportunities among A-REITs. The fund will be managed by Phoenix Portfolios Pty Ltd.

8 APRIL 2008 **Refinances fund debt**

Cromwell refinances Cromwell Property Fund debt facilities totalling \$248 million for three years.

20 FEBRUARY 2008 **Strong half-year result**

Cromwell posts a record half-year net profit after tax of \$79.5 million, record profit from operations of \$41.8 million, and confirms distribution guidance of 10cps for full year.

24 JANUARY 2008 **On-market buyback**

Cromwell announces on-market buyback of up to 10% of issued capital as part of its capital management program.

24 JANUARY 2008 **Portfolio revaluations**

Cromwell portfolio valuation increases \$31.2 million after an independent revaluation of 10 property assets. The properties, which represent approximately 40% of Cromwell's portfolio, gained an average of 8.6%.

28 AUGUST 2007 **Buoyant full-year result**

Record full-year profit after tax of \$113.9 million for 2007/08. Operating profit of \$37.6 million exceeds forecast.

24 AUGUST 2007 **Sale of Perth office building**

Cromwell completes off-market sale of RSM Bird Cameron building in Perth for \$27.3 million.

* Past performance is not indicative of future performance.

CEO's Review

Cromwell maintains a defensive property portfolio and a simple low risk business structure which can deliver reliable organic growth.



As I flagged in the 2007 Annual Report, Cromwell Group's Board and Management took the decision in 2007 to sell a number of assets to reduce gearing, build cash reserves and strengthen the Group's balance sheet. That decision was motivated by our views on market fundamentals, volatility in debt markets, and our expectation that a market correction would lead to opportunities to acquire properties and businesses on attractive terms from others not so well placed to deal with changing conditions.

As a result of our decision, the Group finds itself in a position of strength, with quality assets, secure revenues and low gearing.

The highlights of the year's performance include:

- A full year net profit after tax of \$108 million;
- Operating earnings of \$70.8 million or 10.1 cents per security;
- Positive fair value adjustments of \$24 million to our property portfolio, despite market volatility, resulting in NTA of \$1.01 (up from \$0.96 at 30 June 2007); and
- 81% of operating earnings derived from recurring income.

Cromwell's security price has been negatively affected by the downturn in the market, falling from \$1.18 at 30 June 2007 to \$0.70 at the date of this report. However, its performance compares favourably to that of its peers and the ASX200 and ASX300 A-REIT indices. Furthermore, the current security price represents a 30% discount to NTA, with no allowance for the value of the Group's funds management business.

Distributions for the year were 10 cents per security, an increase of approximately 10% over the annualised 2007 distribution per security. Cromwell's distribution policy has always been to distribute no more than 100% of operating earnings. This policy was generally regarded in the industry as conservative, with many of our peers paying distributions in excess of cash inflows. We continue to maintain our policy and believe that it will be regarded as the preferred policy for all A-REITs.

In addition to the key strengths highlighted at the top of the page, one of Cromwell's greatest points of difference has been its ability to adapt to changing market conditions. This has been reflected in the range of products which it has offered over the years.

- Strengths:
- Purely domestic property focus, with no exposure to offshore markets
 - Strong retail brand and strong support from long term investors
 - Significantly reduced competition in the retail funds management market
 - Talented and stable executive team and internalised asset management model

We believe that the next few years will see significant changes in the way that direct property funds are structured and marketed. We see opportunity in the short term for single property, fixed-term products which take advantage of current market conditions and which can be sourced and warehoused on our balance sheet. To that end we have developed a Cromwell Private Wealth offering which will be promoted to our investors, and which we believe will be received well.

The views which were expressed in the 2007 report were reflected in our funds management decisions. We have effectively been out of the market for property acquisitions since mid to late 2006, and our funds have not been exposed to the frenzied acquisition activity undertaken by many of our peers at the top of the market. This adherence to fundamentals has placed our funds in a far more secure position than many others and enabled us to secure funding for the Cromwell Property Fund on advantageous terms earlier this year, in the middle of the credit crisis.

Since balance date, we have moved to further consolidate our position, refinancing debt well in advance of its scheduled maturity date. Whilst the existing \$429 million commercial mortgage-backed securities (CMBS) borrowings mature in April 2009, we have taken the decision to secure a new three year facility now to ensure that the Group is not affected by any continuing volatility in the credit markets or short-term credit shortages. The cost of the new facility is higher than our current CMBS facility but compares favourably to facilities recently negotiated by our peers.

The present market presents the Group with the opportunities foreshadowed in our 2007 Report – that is, to acquire accretive assets and businesses from those who are not so well placed to deal with the market downturn. Whilst we don't subscribe to the views expressed by some market commentators that there will be a serious meltdown in property values, we believe there will be excellent buying opportunities in the year ahead, and the current market represents a once in a decade opportunity to build our business.

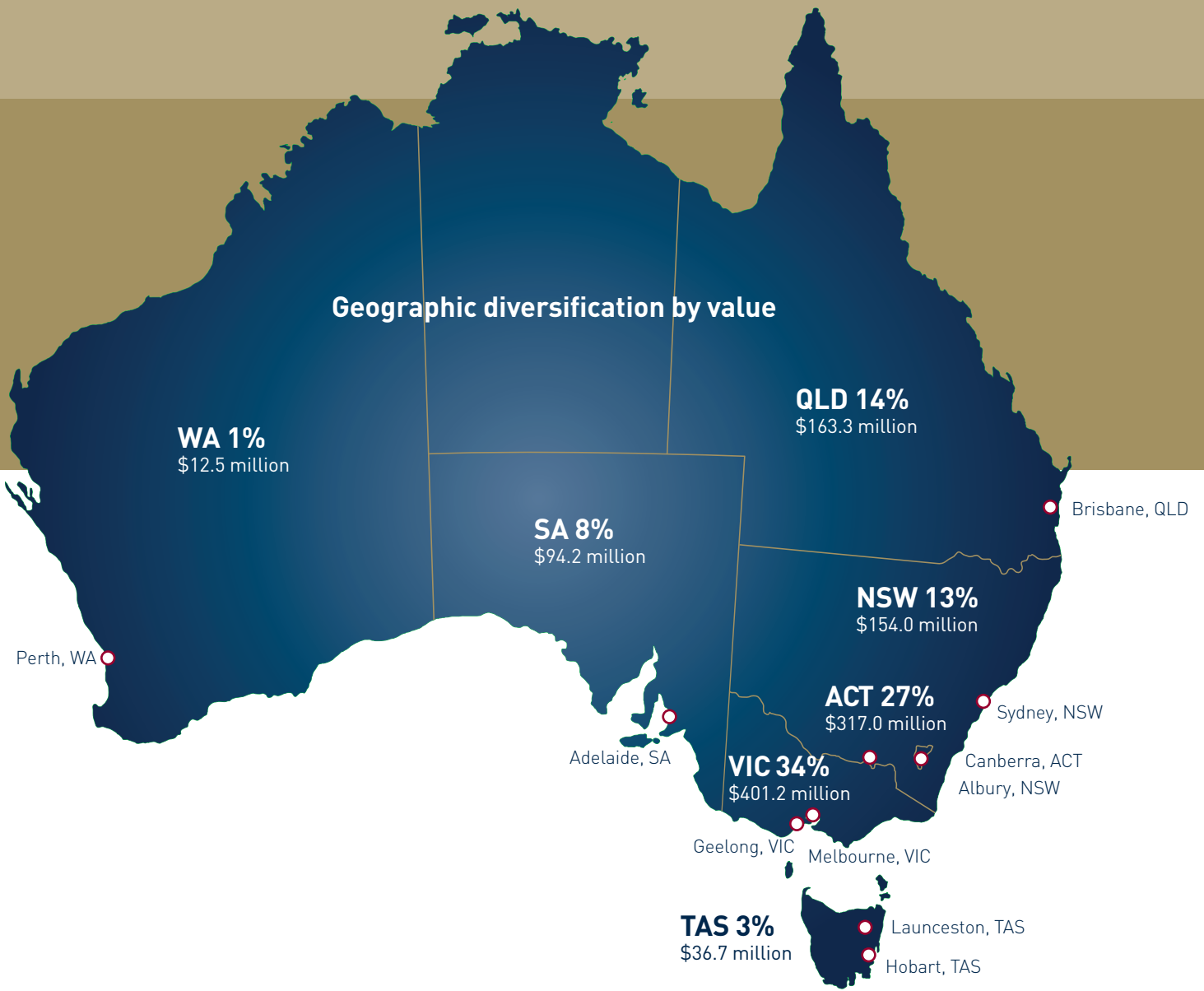
As I indicated in our 2007 report, Cromwell is committed to meeting Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council. To that end, Mr Geoffrey Levy was appointed as Independent Chairman earlier this year. In the short time since Geoff's appointment, he has made a significant contribution and has brought to the Board qualities and insights which I believe are invaluable in the current market. Geoff's appointment has reinforced the ability of our Board to act in a rapid and decisive manner and respond quickly to changing market conditions.

I am delighted to present to you a Group with a strong balance sheet and quality assets and which has confidence in its ability to take advantage of current market opportunities.

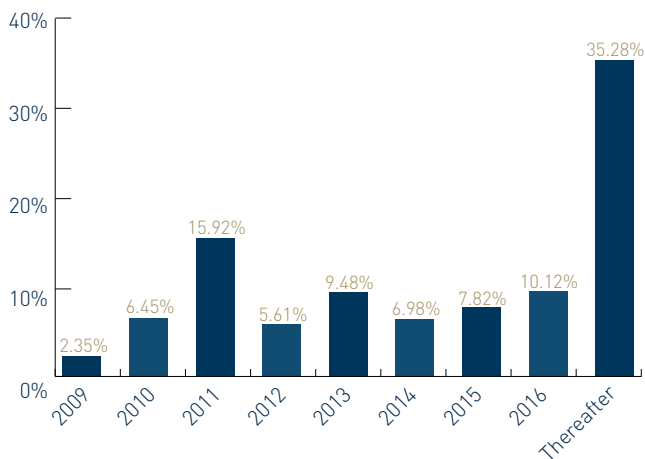


Paul Weightman
Chief Executive Officer

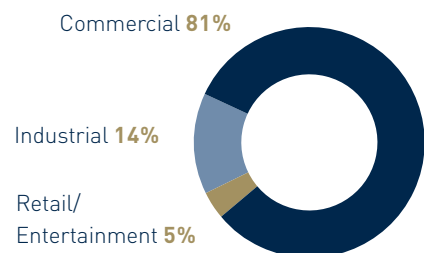
Property Portfolio as at 30 June 2008



Lease expiry profile (Gross income by FY)



Sector diversification by income



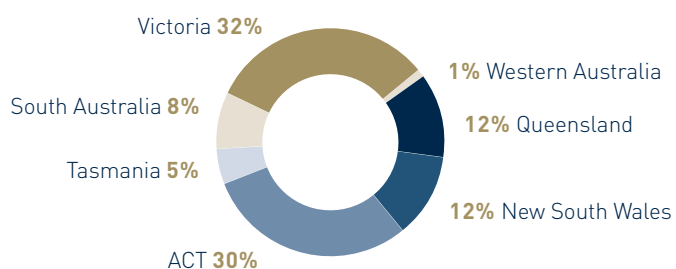
Snapshot of portfolio:

- Total Assets **\$1.251 billion**
- NTA per stapled security **\$1.01**
- Property Portfolio Value **\$1.2 billion**
- Weighted Average Lease Term **5.9 years**
- Occupancy **99.8%**

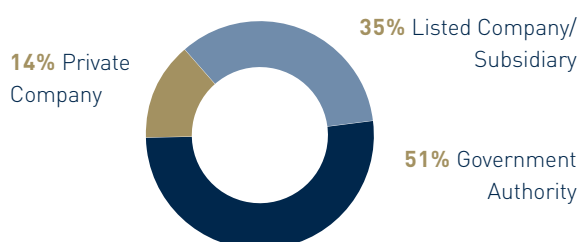
| Property | Independent Valuation |
|-----------------------------|-----------------------|
| Albury Cinema Centre | \$12,000,000 |
| 700 Collins Street | \$183,500,000 |
| Elders Woolstore | \$15,400,000 |
| Forsyth Distribution Centre | \$44,450,000 |
| 101 Grenfell Street | \$36,800,000 |
| Hellman Distribution Centre | \$11,260,000 |
| 380-390 La Trobe Street | \$110,000,000 |
| 200 Mary Street | \$100,000,000 |
| 19 National Circuit | \$35,500,000 |
| NQX Distribution Centre | \$27,300,000 |
| 243 Northbourne Avenue | \$34,000,000 |
| Quadrant Building | \$10,350,000 |

| Property | Independent Valuation |
|-------------------------|-----------------------|
| Scrivener Building | \$12,800,000 |
| Spicers Paper | \$12,500,000 |
| Terrace Office Park | \$36,000,000 |
| TGA Complex | \$58,666,667 |
| Tuggeranong Office Park | \$166,025,000 |
| 475 Victoria Avenue | \$142,000,000 |
| Village Geelong | \$11,000,000 |
| Village Hobart | \$15,450,000 |
| Village Launceston | \$3,100,000 |
| Vodafone Call Centre | \$18,100,000 |
| Henry Waymouth Centre | \$42,000,000 |
| Wesfarmers Woolstore | \$41,000,000 |

Geographic diversification by income



Gross income by tenant classification



Directors' Report



Geoffrey Levy
CHAIRMAN

Paul Weightman
CHIEF EXECUTIVE OFFICER

Daryl Wilson
FINANCE DIRECTOR

Michelle McKellar
NON-EXECUTIVE DIRECTOR

1. Directors & Officers

The Directors of Cromwell Corporation Limited ("the Company") and Cromwell Property Securities Limited as responsible entity of the Cromwell Diversified Property Trust ("the Trust") present their report for Cromwell Group ("the Group") consisting of Cromwell Corporation Limited and its controlled entities and Cromwell Diversified Property Trust and its controlled entities for the year ended 30 June 2008.

The units of the Trust and the shares of the Company are combined and issued as stapled securities in the Group. The units of the Trust and shares of the Company cannot be traded separately and can only be traded as stapled securities.

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 – Appointed 17 April 2008

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 and MZL Investments Pty Ltd. He is also Deputy Chair of the Australian Sports Anti-doping Authority.

Ms Michelle McKellar – Non-Executive Director – Appointed 1 March 2007

Ms McKellar has a wealth of property business 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 has recently established her own family property company. Ms McKellar is a member of Cromwell's Nomination and Remuneration and Audit & Risk Committees.

Mr David Usasz – Non-Executive Director – Appointed 26 April 2007

Mr Usasz has 20 years experience as a partner with PricewaterhouseCoopers and has been involved in merger and acquisition advice, accounting and financial consultancy, specialising in corporate re-organisations. 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 and Remuneration Committee.

Mr Robert Pullar – Non-Executive Director – Appointed July 2002

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 (now known as Pitcher Partners), 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 also Chairman of Cromwell's Nomination and Remuneration Committee, and a member of Cromwell's Audit & Risk Committee.



David Usasz

NON-EXECUTIVE DIRECTOR

Robert Pullar

NON-EXECUTIVE DIRECTOR

Richard Foster

EXECUTIVE DIRECTOR

Suzanne Morgan

COMPANY SECRETARY

Mr Paul Weightman – Chief Executive Officer – Appointed August 1998

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 Daryl Wilson – Finance Director – Appointed 25 January 2007

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 Richard Foster – Executive Director – Appointed July 2005

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 also been closely involved with the acquisition and marketing of direct property investments valued in excess of \$1.2 billion. He has had substantial input to the growth and development of the business and the Group's investment products.

All Directors of the Company are also Directors of Cromwell Property Securities Limited.

Directorships of other listed companies

Mr Geoffrey Levy has been a Director of Specialty Fashion Group since 8 April 2005. Mr Levy was also a director of Ten Network Holdings from 3 April 1998 until his resignation from the Board on 25 October 2007, and Mirvac Group from 9 February 1997 until his resignation on 3 March 2006.

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.

Company Secretary

Ms Suzanne Morgan – Appointed 25 January 2007

Ms Morgan is the Company Secretary for the Cromwell Group and is responsible for ensuring the Cromwell Group operates within an appropriate legal and compliance framework with specific focus on the Cromwell Group's statutory obligations. Ms Morgan was appointed to the role of Company Secretary after joining Cromwell in 2006 as the Cromwell Group's Corporate Legal Counsel. She has over 12 years experience as an in-house lawyer having worked primarily in the banking and financial services industry. Ms Morgan has a Bachelor of Laws and an Associate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Directors' Report continued

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 and Remuneration Committee | | Audit & Risk Committee | |
|-------------------|-------|----|---------------------------------------|---|------------------------|---|
| | A | B | A | B | A | B |
| Geoffrey Levy | 2 | 3 | – | – | – | – |
| Robert Pullar | 14 | 14 | 5 | 5 | 6 | 6 |
| Michelle McKellar | 14 | 14 | 4 | 5 | 5 | 6 |
| David Usasz | 14 | 14 | 5 | 5 | 6 | 6 |
| Paul Weightman | 14 | 14 | – | – | – | – |
| Richard Foster | 12 | 14 | – | – | – | – |
| Daryl Wilson | 14 | 14 | – | – | – | – |

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

Dividends/distributions paid or declared since the start of the financial year are detailed below.

| | Dividend per Security | Distribution per Security | Total per Security | Total \$'000 | Franked amt per Security | Record Date | Payment Date |
|--|-----------------------|---------------------------|--------------------|--------------|--------------------------|-------------|--------------|
| 2008 | | | | | | | |
| Dividends/distributions for the year ended 30 June 2008 | | | | | | | |
| Interim distribution | – | 2.50¢ | 2.50¢ | 17,574 | – | 02/10/07 | 15/11/07 |
| Interim distribution | – | 2.50¢ | 2.50¢ | 17,651 | – | 31/12/07 | 15/02/08 |
| Interim distribution | – | 2.50¢ | 2.50¢ | 17,628 | – | 31/03/08 | 15/05/08 |
| Final dividend/distribution | 1.00¢ | 1.50¢ | 2.50¢ | 17,583 | 0.50¢ | 30/06/08 | 29/08/08* |
| | 1.00¢ | 9.00¢ | 10.00¢ | 70,436 | 0.50¢ | | |
| 2007 | | | | | | | |
| Dividends/distributions for the year ended 30 June 2007 | | | | | | | |
| Interim dividend – stapling | 0.10¢ | – | 0.10¢ | 139 | 0.10¢ | 18/12/06 | 18/12/06 |
| Interim distribution | – | 1.50¢ | 1.50¢ | 10,458 | – | 12/02/07 | 20/03/07 |
| Interim distribution | – | 1.50¢ | 1.50¢ | 10,470 | – | 03/04/07 | 21/05/07 |
| Final dividend/distribution | 0.80¢ | 1.45¢ | 2.25¢ | 15,740 | 0.27¢ | 29/06/07 | 31/08/07 |
| | 0.90¢ | 4.45¢ | 5.35¢ | 36,807 | 0.37¢ | | |

* Expected payment date

4. Review of Operations

Financial performance

The financial performance for the year reflects the first full year since the significant increase in the assets of the Group following the Stapling transaction, and reflects the resulting increase in income. Basic earnings attributable to stapled securityholders were 15.3 cents per stapled security.

Net income from investment properties recognised in the income statement for the period was \$73,161,000 (2007: \$48,779,000). The financial results have also been positively impacted by net increases in the fair value of investment properties of \$34,649,000 (2007: \$69,779,000).

A gain on sale of \$7,470,000 (2007: \$4,963,000) was derived during the year, primarily from the sale of the Bird Cameron (Perth) and Heidelberg (Brisbane) properties. The Group also recognised small adjustments on the sale of the Bundall (Gold Coast) and Goulburn Street (Sydney) properties during the year. These properties had previously been revalued at 30 June 2007 to fair value based on anticipated sales value.

One-off costs of \$7,049,000 associated with the stapling transaction were incurred during the previous financial year.

The Trust previously had a limited term (80 years), and in accordance with AASB 132, net assets attributable to unitholders were recognised as debt, rather than equity. This also led to the recognition of the finance cost attributable to unitholders in the income statement. The responsible entity amended the constitution of the Trust on 1 June 2007 to remove the limitation on the Trust term. The net assets attributable to unitholders have therefore been reclassified as equity since that date.

Operating profits and dividends/distributions to securityholders

The Board excludes certain items from the net profit after tax but before unitholders' finance costs to arrive at an operating profit before significant and non-cash items, when considering amounts available for distribution by the Group, as follows:

| | Consolidated | |
|---|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |
| Profit from operations | 70,791 | 36,644 |
| Significant and non-cash items: | | |
| Gain on sale of investment properties | 7,470 | 4,963 |
| Net gain on fair value adjustments: | | |
| - Investment properties | 34,649 | 69,779 |
| - Interest rate derivatives | 4,479 | 4,610 |
| Decrease to recoverable amount: | | |
| - Available for sale financial assets | (9,011) | - |
| Straight-line lease income | 735 | 1,374 |
| Lease incentives and lease costs amortised | (4,182) | (2,221) |
| Amortisation of finance costs | (890) | (1,089) |
| Employee options expense | (73) | (282) |
| Amortisation and depreciation | (470) | (414) |
| Share of profit of equity accounted entities ⁽¹⁾ | 4,618 | - |
| Gain on dilution of interest in associate | 826 | 6,341 |
| Stapling transaction costs | - | (7,049) |
| Share of net profit attributed to external minority interests | 11,904 | - |
| Income tax adjustments ⁽²⁾ | (945) | 1,301 |
| Net profit for the year | 119,901 | 113,957 |
| Attributable to: | | |
| Company shareholders | 19,440 | 8,620 |
| Trust unitholders – minority interest | 88,557 | 105,337 |
| Net profit attributable to stapled securityholders | 107,997 | 113,957 |
| External minority interests | 11,904 | - |
| | 119,901 | 113,957 |

(1) Includes share of profit of equity accounted entities relating to significant and non-cash items.

(2) Includes change in value of deferred tax asset due to realisation of tax losses.

Directors' Report continued

Profit from operations for the year was \$70,791,000 (2007: \$36,644,000). Basic operating earnings attributable to stapled securityholders were 10.1 cents (2007: 5.3 cents) per stapled security a record for the Group. The increase reflected a significantly higher contribution from the property portfolio in the current financial year, coupled with higher recurring funds management and development contributions.

The performance of the investment property portfolio was strong during the year, and reflects Cromwell Group's commitment to an in-sourced management model, with significant benefits attached to the integrated property management and tenant relationship management activities. High renewal rates with tenants continue to be achieved, and the portfolio was 99% leased at year-end, with a 5.9 year weighted average lease term.

Significant leasing activity was undertaken during the year, including a new 10-year lease to the South Australian Government over 11,621 square metres at 101 Grenfell Street, Adelaide.

Earnings per share

| | Consolidated | |
|---|--------------|-------|
| | 2008 | 2007 |
| | Cents | Cents |
| Basic/diluted operating earnings per stapled security ⁽¹⁾⁽²⁾ | 10.1 | 5.3 |
| Basic/diluted earnings per stapled security ⁽²⁾ | 15.3 | 16.4 |

(1) Based on profits from operations disclosed above.

(2) Excludes external minority interests.

Financial position

| | Consolidated | |
|---|--------------|-----------|
| | 2008 | 2007 |
| Total assets (\$'000) | 1,368,523 | 1,295,154 |
| Net assets (\$'000) | 715,236 | 673,064 |
| Net tangible assets ⁽¹⁾ (\$'000) | 710,938 | 667,691 |
| Net debt (\$'000) ⁽²⁾ | 589,465 | 569,000 |
| Gearing (%) ⁽³⁾ | 44% | 44% |
| Securities issued (\$'000) | 702,816 | 698,784 |
| NTA per security | \$1.01 | \$0.96 |

(1) Total 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 increased by 5% during the year, from \$0.96 to \$1.01, primarily as a result of the increases in value of the investment property.

The Group acquired the Tuggeranong Office Park for \$166,025,000 in June 2008. The Group also sold several properties valued at \$181,055,000 between July 2007 and October 2007, realising a gain on sale of \$7,470,000.

Construction of the Synergy office building in Brisbane is over 50% complete, with construction expected to be finalised in November 2008.

Cromwell Group announced an on-market buy-back of up to 69 million stapled securities in January 2008. To 30 June 2008, approximately 5,565,000 securities have been repurchased under the buy-back.

At balance date the Group held borrowings of \$589,465,000, net of available cash (including \$25,700,000 cash held as security against borrowings). This represents gearing of approximately 44%.

The Group's major borrowings, a \$429,000,000 Commercial Mortgage Backed Security ("CMBS") issue is due for repayment in April 2009. Since balance date offers have been received from 3 banks to provide a syndicated loan facility totalling \$452,000,000, which would enable the repayment of the CMBS issue. The offers of finance have been approved by the banks credit committees, but are still subject to documentation and satisfaction of relevant pre-conditions before the funding is able to be drawn. The Directors expect that the facility will be finalised on satisfactory terms, and that it will be available to the Group prior to the scheduled repayment date of the CMBS issue.

Outlook

The outlook remains very positive for the Group, despite the recent market volatility. The proportion of earnings from recurring sources of property investment and funds management is expected to be higher in the coming year with the Group having less reliance on transactional earnings.

The Group remains very well placed, with a strong Australian core property portfolio. This portfolio is expected to continue to deliver average increases in property rental income of at least 4% per annum. Continuing growth in funds under management via the Group's expansive retail distribution network will also underpin future growth in operating profits, although more subdued growth is expected in FY09.

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 45 of the financial report, no matter or circumstance has arisen since 30 June 2008 that has significantly affected or may significantly affect:

- a) the Group's operations in future financial years; or
- b) the results of those operations in future financial years; or
- c) 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.

Directors' Report continued

9. Directors' Interests

The interests of current Directors in securities of Cromwell Corporation Limited are as follows:

| | Stapled Securities | Performance Rights | Options over Securities |
|-------------------|--------------------|--------------------|-------------------------|
| Geoffrey Levy | - | - | - |
| Robert Pullar | 14,000,000 | - | - |
| Michelle McKellar | 120,000 | - | - |
| David Usasz | 1,547,602 | - | - |
| Paul Weightman | 15,464,167 | 1,108,100 | - |
| Richard Foster | 5,349,598 | - | - |
| Daryl Wilson | 2,215,006 | 516,300 | - |

10. Options

Shares under option through Employee Share Ownership Plan

Stapled securities in Cromwell Group held by the Employee Share Ownership Plan, which are accounted for as in-substance options, at the date of this report are as follows:

| Number of options | Date granted | Exercise date | Exercise price | Expiry date |
|-------------------|--------------|---------------------|----------------|-------------|
| 17,757 | 28/8/05 | 01/07/08 – 30/06/09 | 30.9¢ | 30/6/09 |
| 250,950 | 28/8/05 | 01/07/08 – 30/09/09 | 30.9¢ | 30/9/09 |
| <u>268,707</u> | | | | |

Movement in number of in-substance options:

| | Number of options |
|--|-------------------|
| Opening balance 1 July 2007 | 936,096 |
| Vested and exercised prior to year end | <u>(667,389)</u> |
| Closing balance 30 June 2008 | <u>268,707</u> |

All remaining options expire on the earlier of their expiry date or termination of the employee's employment. Further details are included in the remuneration report. 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.

Shares 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:

| Number of options | Date granted | Exercise date | Exercise price | Expiry date |
|-------------------|--------------|---------------------|----------------|-------------|
| 492,900 | 18/9/07 | 19/12/09 – 19/01/10 | \$1.21 | 19/1/10 |
| 3,886,800 | 18/9/07 | 19/12/10 – 19/01/11 | \$1.21 | 19/1/11 |
| 8,600 | 18/9/07 | 19/12/10 – 19/01/11 | \$0.00 | 19/1/11 |
| 1,624,400 | 06/12/07 | 07/3/11 – 07/4/11 | \$1.21 | 07/4/11 |
| <u>6,012,700</u> | | | | |

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 rights holders have a matching in-substance option for units in Cromwell Diversified Property Trust as a result of the Group's stapling arrangement.

Shares 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 up to the date of this report.

11. Remuneration Report

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

- A** Principles used to determine the nature and amount of remuneration
- B** Details of remuneration
- C** Service agreements
- D** Share-based compensation
- E** Additional information

A Principles used to determine the nature and amount of remuneration

The Group has appointed a Nomination and Remuneration Committee ("committee") to set and review the remuneration structure for executive officers, including executive directors. 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. The remuneration of executives is considered by the committee for recommendation to the Board.

Executive remuneration is benchmarked periodically against the market, based on national remuneration levels for similar companies. Performance is assessed not less than annually in light of performance against individual and Group related goals.

The employment or remuneration of any executive of the Group is not influenced by the executive's shareholding in the Group.

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. Long term incentives may include share-based compensation.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- performance-related bonuses
- long-term incentives
- other remuneration such as superannuation.

The combination of these comprises the executive's remuneration.

Base pay

Base pay is structured as a total employment cost package which 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.

Performance-related bonuses

Performance-related cash bonus entitlements are linked to the achievement of individual objectives, both financial and non-financial, which are relevant to meeting the Group's business objectives. Further information is provided in part E.

The executives' cash bonus entitlements are assessed and paid based on the actual performance against the relevant key performance indicator targets. For all executives, 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.

Directors' Report continued

Long-term incentives

The Group has established the Cromwell Employee Share Ownership Plan. Under the Employee Share Ownership Plan, eligible employees were allocated shares in Cromwell Corporation Limited. The shares were acquired by the eligible employees at the time of allocation, funded by a loan from Cromwell Corporation Limited 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 Employee Share Ownership Plan 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 Employee Share Ownership Plan 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.

No grants were made under the Employee Share Ownership Plan during the 2007 or 2008 financial years, and it is not intended that any further grants will be made by this plan in the future.

The number of employees participating in the Employee Share Ownership Plan in the 2008 financial year was 3 (2007: 16). The number of stapled securities allocated to employees at 30 June 2008 was 268,707 (2007: 936,096).

The Group has established a Performance Rights Plan and a Tax Exempt Plan during the 2008 financial year. The Performance Rights Plan 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. The Tax Exempt Plan enables eligible employees to acquire up to \$1,000 of stapled securities in a tax effective manner within a 12 month period. Eligibility for the Performance Rights Plan and the Tax Exempt Plan is approved by the Board or the committee, having regard to individual circumstances and performance.

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

The number of employees participating in the Performance Rights Plan during the 2008 financial year was 28 (2007: nil). The number of performance rights allocated to employees at 30 June 2008 was 6,012,700 (2007: nil).

The number of employees participating in the Tax Exempt Plan during the 2008 financial year was 22 (2007: nil). The number of stapled securities allocated to employees during the year was 17,057 (2007: nil) of these 13,956 (2007: nil) remained within the plan at year-end.

Directors' fees

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 \$500,000 per annum in total for salary and 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. The Board was comprised of four non-executive directors and three executive directors during the financial year.

B Details of remuneration

Remuneration paid, payable, or otherwise made available, directly or indirectly, to key management personnel is set out below. The cash bonuses were dependent on the satisfaction of performance conditions as set out under the Performance-related bonuses heading above. 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 2008 financial year were:

Non-Executive Directors

| | |
|--------------------------------|----------|
| Mr G H Levy, AO ⁽¹⁾ | Chairman |
| Ms M A McKellar | Director |
| Mr D E Usasz | Director |
| Mr R J Pullar | Director |

Executive Directors

| | |
|-----------------|-------------------------|
| Mr PL Weightman | Chief Executive Officer |
| Mr DJ Wilson | Chief Financial Officer |
| Mr WR Foster | Director – Acquisitions |

Other Key Management Personnel

| | |
|-----------------------------|-------------------------------------|
| Mr PA Cronan ⁽²⁾ | Chief Operations Officer |
| Mr PW Howard ⁽³⁾ | Chief Operations Officer |
| Ms SM Morgan | Company Secretary |
| Mr DA Gippel | Director - Cromwell Capital |
| Ms MC McLaughlin | National Head of Investor Relations |
| Mr MJ Blake | National Head of Distribution |
| Mr PJ McDonnell | National Asset Manager |
| Mr PJ Cowling | Associate Director |

Details of remuneration

| | Short-term benefits | | Cash bonus | Non-cash benefits | Post-employment | Long-term benefits | Share-based payment | Total | % of Remun. that is performance based |
|---------------------------------------|----------------------|----------------------------|------------|-------------------|-----------------|--------------------|---------------------|-----------|---------------------------------------|
| | Cash salary and fees | Movement in accrued salary | | | Super-annuation | Long service leave | Options | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| 2008 | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | |
| GH Levy ⁽¹⁾ | 28,670 | – | – | – | 2,580 | – | – | 31,250 | – |
| RJ Pullar | 77,354 | – | – | – | 6,637 | – | – | 83,991 | – |
| MA McKellar | 72,150 | – | – | – | 13,129 | – | – | 85,279 | – |
| DE Usasz | 72,812 | – | – | – | 13,129 | – | – | 85,941 | – |
| Executive Directors | | | | | | | | | |
| PL Weightman | 614,252 | 48,199 | – | 222,900 | 13,129 | 3,853 | 12,660 | 914,993 | 1% |
| WR Foster | 250,000 | – | – | – | – | – | – | 250,000 | – |
| DJ Wilson | 386,871 | 17,307 | 20,000 | – | 13,129 | 14,608 | 5,899 | 457,814 | 6% |
| Other key management personnel | | | | | | | | | |
| PA Cronan ⁽²⁾ | 133,276 | (3,722) | – | – | 9,482 | (93) | – | 138,943 | – |
| PW Howard ⁽³⁾ | 48,201 | 4,205 | – | – | 9,744 | 90 | – | 62,240 | – |
| SM Morgan | 144,522 | (1,131) | – | – | 12,550 | 1,154 | 3,610 | 160,705 | 2% |
| DA Gippel | 236,557 | 29,699 | – | 26,903 | 12,370 | 12,436 | 14,885 | 332,850 | 5% |
| MC McLaughlin | 176,871 | 2,143 | 46,893 | – | 13,129 | 3,062 | 6,212 | 248,310 | 21% |
| MJ Blake | 236,871 | 7 | 54,709 | – | 13,129 | 3,845 | 7,986 | 316,547 | 20% |
| PJ McDonnell | 198,532 | (5,661) | – | – | 13,129 | 1,937 | 4,728 | 212,665 | 2% |
| PJ Cowling | 254,319 | 8,417 | – | – | 13,129 | 3,612 | 5,131 | 284,608 | 2% |
| | 2,931,258 | 99,463 | 121,602 | 249,803 | 158,395 | 44,504 | 61,111 | 3,666,136 | |

(1) Appointed on 17 April 2008 (2) Resigned on 22 February 2008 (3) Appointed on 31 March 2008

Directors' Report continued

| | Short-term benefits | | Cash bonus | Non-cash benefits | Post-employment | Long-term benefits | Share-based payment | Total | % of Remun. that is performance based |
|---------------------------------------|----------------------|----------------------------|----------------|-------------------|-----------------|--------------------|---------------------|------------------|---------------------------------------|
| | Cash salary and fees | Movement in accrued salary | | | Super-annuation | Long service leave | Options | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| 2007 | | | | | | | | | |
| Non-Executive Directors | | | | | | | | | |
| RJ Pullar | 25,000 | - | - | 10,000 | - | - | - | 35,000 | - |
| MA McKellar ⁽²⁾ | - | - | - | - | 20,000 | - | - | 20,000 | - |
| DE Usasz ⁽³⁾ | - | - | - | - | 10,692 | - | - | 10,692 | - |
| Executive Directors | | | | | | | | | |
| PL Weightman | 734,721 | 59,766 | - | 3,567 | 11,713 | 970 | - | 810,737 | - |
| RL Stiles ⁽¹⁾ | 247,788 | (18,201) | - | 9,049 | 7,152 | (13,694) | - | 232,094 | - |
| DJ Wilson | 330,790 | 6,706 | 20,000 | 7,264 | 11,946 | 15,501 | 4,441 | 396,648 | 6% |
| WR Foster | 300,000 | - | 150,000 | - | - | - | - | 450,000 | 33% |
| Other key management personnel | | | | | | | | | |
| PA Cronan ⁽⁴⁾ | 68,442 | 3,722 | - | - | 5,441 | 93 | - | 77,698 | - |
| SM Morgan | 105,385 | 6,899 | 20,000 | - | 10,181 | 509 | - | 142,974 | 14% |
| DA Gippel | 175,917 | 11,317 | 35,000 | 28,802 | 12,102 | 2,096 | - | 265,234 | 13% |
| MC McLaughlin | 149,836 | (212) | 48,480 | - | 13,115 | 1,886 | 39,175 | 252,280 | 35% |
| MJ Blake | 224,961 | 6,029 | 64,800 | - | 14,354 | 2,259 | 72,697 | 385,100 | 36% |
| PJ McDonnell | 180,931 | (669) | 18,500 | - | 12,686 | 709 | - | 212,157 | 9% |
| PJ Cowling | 203,662 | 1,408 | 45,000 | - | 12,686 | 1,379 | 89,161 | 353,296 | 38% |
| | <u>2,747,433</u> | <u>76,765</u> | <u>401,780</u> | <u>58,682</u> | <u>142,068</u> | <u>11,708</u> | <u>205,474</u> | <u>3,643,910</u> | |

(1) Retired on 26 April 2007 (2) Appointed on 1 March 2007 (3) Appointed on 26 April 2007 (4) Appointed on 12 February 2007

C Service agreements

PL Weightman

Remuneration and other terms of employment for Paul Weightman, Chief Executive Officer, are formalised in an employment agreement. The Company may terminate the agreement without notice for gross misconduct; otherwise, the Company may terminate the agreement on six months notice, or payment of entitlements for this period in lieu of notice. 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 year ended 30 June 2008 of \$850,000, thereafter to be reviewed annually by the Nomination and Remuneration Committee.
- Performance targets to be reviewed annually by the Nomination and Remuneration Committee. No performance-related cash bonus is payable.

DJ Wilson

Remuneration and other terms of employment for Daryl Wilson, Chief Financial Officer, are formalised in an employment agreement. The Company may terminate the agreement without notice for gross misconduct; otherwise, the Company may terminate the agreement on six months notice, or payment of entitlements for this period in lieu of notice. 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 year ended 30 June 2008 of \$400,000, to be reviewed annually by the Nomination and Remuneration Committee.
- Performance bonus of \$20,000. Targets to be reviewed annually by the Nomination and Remuneration Committee.

The performance bonus payable to Mr Wilson for the year ended 30 June 2008 depended on certain criteria being met. The criteria were assessed as being met in full during the financial year, with 100% of the performance bonus amount being paid.

All other Key Management Personnel are employed under standard employment contracts which provide for termination by either party on one months notice. There are no termination amounts payable under the contracts other than statutory entitlements for accrued leave. Base salaries are disclosed above and reviewed annually.

D Share-based compensation

Details of the Employee Share Ownership Plan, the Performance Rights Plan and the Tax Exempt 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.

An allocation of securities/performance rights have been granted to executive directors and executives as share based compensation. All directors and executives of Cromwell Corporation Limited and its controlled entities were eligible to participate in the Employee Share Ownership Plan and the Performance Rights Plan subject to a minimum period of service, which may be waived by the Nomination and Remuneration Committee. Participation by directors is subject to securityholder approval.

Consideration for granting options/performance rights, grant periods, vesting and exercise dates and exercise periods were/are determined by the Board or Nomination and Remuneration Committee in each case. Options granted under the Employee Share Ownership Plan and stapled securities issued under the Tax Exempt 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 exercise price of the Performance Rights is determined by the Nomination and Remuneration Committee.

The terms and conditions of each grant of performance rights affecting remuneration in this or future reporting periods are as follows:

| Grant Date | Expiry Date | Exercise Price (cents) | No. of Options Granted | Assessed Value per Option at Grant Date |
|------------|-------------|------------------------|------------------------|---|
| 18/9/2007 | 19/1/2010 | \$1.21 | 203,750 | - |
| 18/9/2007 | 19/1/2010 | \$1.21 | 203,750 | 14.3¢ |
| 18/9/2007 | 19/1/2011 | \$1.21 | 1,078,500 | - |
| 18/9/2007 | 19/1/2011 | \$1.21 | 1,078,500 | 15.0¢ |
| 6/12/2007 | 7/4/2011 | \$1.21 | 812,200 | - |
| 6/12/2007 | 7/4/2011 | \$1.21 | 812,200 | 15.0¢ |

The terms and conditions of each grant of in-substance options over shares acquired by the Employee Share Ownership Plan affecting remuneration in the previous, this or future reporting periods are as follows:

| Grant Date | Expiry Date | Exercise Price (cents) | No. of Options Granted ⁽¹⁾ | Assessed Value per Option at Grant Date |
|------------|-------------|------------------------|---------------------------------------|---|
| 27/11/2003 | 26/11/2006 | 10.0¢ | 2,000,000 | 8.2¢ |
| 28/8/2005 | 30/6/2009 | 30.9¢ | 1,945,000 | 10.1¢ |
| 28/8/2005 | 30/9/2009 | 30.9¢ | 2,000,000 | 10.1¢ |
| 31/10/2005 | 30/6/2009 | 40.0¢ | 500,000 | 7.1¢ |

(1) The options were granted for no cash consideration, prior to the 0.8879:1 share reconstruction and stapling transaction undertaken in December 2006.

Directors' Report continued

The original exercise dates of the above options over shares acquired by the ESOP varied over time as follows:

| Exercise Dates | No. of Options | | | |
|------------------------|----------------|-----------|-----------|---------|
| 27/11/2003 – 30/6/2004 | 500,000 | | | |
| 1/7/2004 – 30/6/2005 | 500,000 | | | |
| 1/7/2005 – 30/6/2006 | 500,000 | | | |
| 28/8/2005 – 30/6/2006 | | 486,250 | | |
| 28/8/2005 – 30/9/2006 | | | 500,000 | |
| 31/10/2005 – 30/6/2006 | | | | 125,000 |
| 1/7/2006 – 26/11/2006 | 500,000 | | | |
| 1/7/2006 – 30/6/2007 | | 486,250 | | 125,000 |
| 1/7/2006 – 30/9/2007 | | | 500,000 | |
| 1/7/2007 – 30/6/2008 | | 486,250 | | 125,000 |
| 1/7/2007 – 30/9/2008 | | | 500,000 | |
| 1/7/2008 – 30/6/2009 | | 486,250 | | 125,000 |
| 1/7/2008 – 30/9/2009 | | | 500,000 | |
| | 2,000,000 | 1,945,000 | 2,000,000 | 500,000 |

As a result of the stapling transaction during the prior year, all outstanding options became vested and exercisable. All key management personnel options were exercised, except for 1,000,000 options held by P J Cowling (prior to the 0.8879:1 reconstruction) as shown below. As a result of the acceleration of vesting, the remaining expense attributable to the options vested and exercised during 2007 was recognised during the 2007 year. No in-substance options under the Employee Share Ownership Plan were granted during the 2008 financial year.

Details of Performance Rights which were provided as remuneration to key management personnel under the Performance Rights Plan during the 2008 financial year are set out below.

| | Grant date | No. options granted | Vested during year | Fair value per option at grant date (Cents) | Exercise Price \$ | Amount paid or payable \$ | Expiry date | Date exercisable |
|---------------|------------|---------------------|--------------------|---|-------------------|---------------------------|-------------|------------------|
| 2008 | | | | | | | | |
| PL Weightman | 06/12/07 | 554,050 | – | 15.0¢ | 1.21 | – | 07/04/11 | 07/03/11 |
| PL Weightman | 06/12/07 | 554,050 | – | – | 1.21 | – | 07/04/11 | 07/03/11 |
| DJ Wilson | 06/12/07 | 258,150 | – | 15.0¢ | 1.21 | – | 07/04/11 | 07/03/11 |
| DJ Wilson | 06/12/07 | 258,150 | – | – | 1.21 | – | 07/04/11 | 07/03/11 |
| PA Cronan | 18/09/07 | 141,150 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| PA Cronan | 18/09/07 | 141,150 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| SM Morgan | 18/09/07 | 114,600 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| SM Morgan | 18/09/07 | 114,600 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| DA Gippel | 18/09/07 | 203,750 | – | 14.3¢ | 1.21 | – | 19/01/10 | 19/12/09 |
| DA Gippel | 18/09/07 | 203,750 | – | – | 1.21 | – | 19/01/10 | 19/12/09 |
| DA Gippel | 18/09/07 | 192,250 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| DA Gippel | 18/09/07 | 192,250 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| PJ McDonnell | 18/09/07 | 150,100 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| PJ McDonnell | 18/09/07 | 150,100 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| PJ Cowling | 18/09/07 | 170,850 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| PJ Cowling | 18/09/07 | 170,850 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| MJ Blake | 18/09/07 | 253,500 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| MJ Blake | 18/09/07 | 253,500 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |
| MC McLaughlin | 18/09/07 | 197,200 | – | 15.0¢ | 1.21 | – | 19/01/11 | 19/12/10 |
| MC McLaughlin | 18/09/07 | 197,200 | – | – | 1.21 | – | 19/01/11 | 19/12/10 |

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables opposite. 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 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. Fair value at grant date for performance rights with market based vesting conditions are independently determined using a Monte Carlo simulation (TSR hurdle) and the Black-Scholes option pricing mode 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.

All performance rights granted during 2008 bore no consideration and vest over time. The model inputs for performance rights granted during the year ended 30 June 2008 are disclosed in note 42.

The 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.

Details of in-substance options which were provided as remuneration to Key Management Personnel during the 2008 and 2007 financial years under the Employee Share Ownership Plan are set out below. No Performance Rights were provided as remuneration during the 2007 financial year.

| | Opening balance | Granted during year | Vested during year | Exercised during the year | Lapsed during year | Closing balance |
|-------------|-----------------|---------------------|--------------------|---------------------------|--------------------|-----------------|
| 2008 | | | | | | |
| PJ Cowling | 887,900 | - | - | (636,950) | - | 250,950 |

For each option exercised one ordinary share in Cromwell Corporation Limited was issued. The amounts paid per share was 30.9¢.

No amounts are unpaid.

Further details relating to options are set out below:

| Name | A | B | C | D |
|---------------|------------------------------------|------------------------|---------------------------|------------------------|
| | Remuneration consisting of options | Value at grant date \$ | Value at exercise date \$ | Value at lapse date \$ |
| GH Levy | 0.0% | - | - | - |
| RJ Pullar | 0.0% | - | - | - |
| MA McKellar | 0.0% | - | - | - |
| DE Usasz | 0.0% | - | - | - |
| PL Weightman | 1.4% | 83,108 | - | - |
| WR Foster | 0.0% | - | - | - |
| DJ Wilson | 1.3% | 38,723 | - | - |
| PA Cronan | 0.0% | 21,173 | - | 21,173 |
| PW Howard | 0.0% | - | - | - |
| SM Morgan | 2.2% | 17,190 | - | - |
| DA Gippel | 4.5% | 57,974 | - | - |
| MC McLaughlin | 2.5% | 29,580 | - | - |
| PJ McDonnell | 2.2% | 22,515 | - | - |
| PJ Cowling | 1.8% | 25,628 | 296,819 | - |

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

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

C = 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.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied.

Directors' Report continued

E Additional information

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year and is monitored through the identification of performance criteria which must be met for each executive. Although the performance criteria may be different for each executive the overriding principles are the same and involve assessment of performance against the following areas:

Financial

Both in relation to the Group's financial performance and the individual executive's business unit.

Individual

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 meeting standards of professional conduct.

In addition, the vesting of certain Performance Rights issued to executives is linked to the Group's total securityholder returns, including share price growth, dividends/distributions and capital returns.

To ensure the appropriate performance objectives are being set and that there is alignment of effort with the key deliverables of the Group's business strategy, the overall performance objectives of the Group are set by the Board annually and then cascaded into the business via the performance criteria and objectives set for all executives and staff.

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 financial 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 different vesting conditions. Options granted under the Employee Share Ownership Plan originally had four year vesting terms, provided the conditions were met. However, all options were subject to accelerated vesting as a result of the stapling transaction in December 2006.

| Name | Cash bonus | | Options | | | | | |
|---------------|------------|-------------|--------------|------------------|-------------|---|---|---|
| | Paid % | Forfeited % | Year Granted | Vested in 2008 % | Forfeited % | Financial years in which options may vest | Minimum total value of grant to vest \$ | Maximum total value of grant to vest \$ |
| PL Weightman | - | - | 2008 | - | - | 2011 | - | 83,108 |
| DJ Wilson | 100% | - | 2008 | - | - | 2011 | - | 38,723 |
| WR Foster | - | - | - | - | - | - | - | - |
| SM Morgan | - | - | 2008 | - | - | 2011 | - | 17,190 |
| PA Cronan | - | - | - | - | - | - | - | - |
| PW Howard | - | - | - | - | - | - | - | - |
| DA Gippel | - | - | 2008 | - | - | 2010-2011 | - | 57,974 |
| PJ McDonnell | - | - | 2008 | - | - | 2011 | - | 22,515 |
| PJ Cowling | - | - | 2008 | - | - | 2011 | - | 25,628 |
| MJ Blake | 50% | 50% | 2008 | - | - | 2011 | - | 38,025 |
| MC McLaughlin | 52% | 48% | 2008 | - | - | 2011 | - | 29,580 |

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 Cromwell Corporation Limited 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 a Directors and Officers Liability 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 also 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.

Directors' Report continued

14. Auditor

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

Non-audit services

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.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is 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 committee to ensure they do not impact the impartiality and objectivity of the auditor.

During the year the following fees were paid or payable to the auditor and its related parties:

| | Consolidated | |
|---|----------------|----------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Audit Services | | |
| Audit and review of financial reports under the Corporations Act 2001 | 332,000 | 261,000 |
| Audit of a controlled entity's Australian Financial Services Licence | 5,000 | 4,000 |
| Audit of controlled entities' compliance plans | 23,000 | 40,000 |
| Total remuneration for audit services | <u>360,000</u> | <u>305,000</u> |
| Non-audit Services | | |
| Investigating accountants' report for Explanatory Memorandum for Merger/Stapling transactions | - | 200,000 |
| Tax compliance services | 48,350 | 17,620 |
| Other | 9,100 | - |
| Total remuneration for non-audit services | <u>57,450</u> | <u>217,620</u> |

The auditor receives remuneration for audit and other services relating to other entities (schemes) 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 \$85,000 (2007: \$42,500).

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.



P.L. Weightman
Director

Dated this 19th day of August 2008

Auditor's Independence Declaration



Level 30, Central Plaza One
345 Queen Street Brisbane Q 4000
GPO Box 1144 Brisbane Q 4001
Ph 07 3222 8444 / Fax 07 3222 8496
Website www.jr.com.au
Email jr@jr.com.au

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

Auditor's Independence Declaration

As lead engagement partner for the audit of the financial report of Cromwell Corporation Limited for the financial year ended 30 June 2008, 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.

JOHNSTON RORKE
Chartered Accountants

A handwritten signature in black ink, appearing to read 'J. Evans'.

J J Evans
Partner

Brisbane, Queensland
19 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Income Statements for the year ended 30 June 2008

| | Notes | Consolidated | | Parent | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Revenue and other income | | | | | |
| Funds management fees | | 14,747 | 14,361 | 8,972 | 2,321 |
| Property development sales | | 38,000 | 10,400 | 12,504 | 10,400 |
| Rental income and recoverable outgoings | | 89,658 | 60,702 | - | - |
| Distributions | | 1,348 | 77 | 18 | 23 |
| Dividends from controlled entities | | - | - | 2,000 | - |
| Interest | | 10,553 | 2,795 | 1,198 | 117 |
| Other revenue | | 84 | - | - | - |
| Gain on sale of investment properties | 3 | 7,470 | 4,963 | - | - |
| Net gain from fair value adjustment to: | | | | | |
| - Interest rate derivatives | | 4,479 | 4,610 | - | - |
| - Investment properties | 14 | 34,649 | 69,779 | - | - |
| Share of profits of equity accounted entities | 16 | 10,357 | 2,418 | - | - |
| Gain on dilution of interest in associate | 16 | 826 | 6,341 | - | - |
| Total revenue and other income | | 212,171 | 176,446 | 24,692 | 12,861 |
| Expenses | | | | | |
| Cost of property development sold | | 13,594 | 5,252 | 1,140 | 5,252 |
| Amortisation/depreciation: | | | | | |
| - Property, plant and equipment | 19 | 291 | 260 | - | - |
| - Intangibles | 21 | 179 | 154 | - | - |
| Commissions | | 2,502 | 2,637 | - | - |
| Employee benefits expense | 4 | 9,011 | 7,890 | 402 | 348 |
| Premises rental – minimum lease payments | | 104 | 163 | - | - |
| Property expenses and outgoings | | 16,497 | 11,923 | - | - |
| Property administration costs | | 1,156 | 857 | - | - |
| Stapling transaction costs | | - | 7,049 | - | 798 |
| Finance costs (excluding unitholders) | 5 | 31,815 | 24,515 | 37 | 148 |
| Management fees – controlled entity | | - | - | 3,100 | 1,100 |
| Decrease to recoverable amount: | | | | | |
| - Available-for-sale financial asset | | 9,011 | - | - | - |
| - Property development inventories | | 1,200 | - | - | - |
| Other expenses | | 3,568 | 2,512 | 619 | 126 |
| | | 88,928 | 63,212 | 5,298 | 7,772 |
| Profit before income tax and unitholders' finance costs | | 123,243 | 113,234 | 19,394 | 5,089 |
| Income tax expense/(credit) | 6 | 3,342 | (723) | 1,008 | (1,273) |
| Profit for the year before unitholders' finance costs | | 119,901 | 113,957 | 18,386 | 6,362 |
| Unitholders' finance costs ^(1,2) | | - | 98,265 | - | - |
| Profit for the year | | 119,901 | 15,692 | 18,386 | 6,362 |
| Attributable to: | | | | | |
| Company shareholders | | 19,440 | 8,620 | | |
| Trust unitholders – minority interest | | 88,557 | 7,072 | | |
| External minority interests | | 11,904 | - | | |
| Profit for the year | | 119,901 | 15,692 | | |
| | | Cents | Cents | | |
| Basic earnings per company share (cents) | 32 | 2.8¢ | 1.2¢ | | |
| Diluted earnings per company share (cents) | 32 | 2.8¢ | 1.2¢ | | |

1. AIFRS required the Trust's issued units to be treated as a liability and Trust distributions/changes in net assets attributable to unitholders to be treated as a finance cost in the income statement while the Trust had a limited life. Accordingly, for the period from acquisition/stapling of the Trust to 31 May 2007, \$98,265,000 of the Trust's result (including unrealised gains on fair value adjustments to investment properties) for the year ended 30 June 2007 has been classified as finance costs. The Trust's constitution was altered on 1 June 2007 such that Trust units on issue are now classified as equity. As such, the Trust's result is not recorded as finance costs from that date.
2. There is no effect on the income tax expense/credit associated with unitholders' finance costs.

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets as at 30 June 2008

| | Notes | Consolidated | | Parent | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Current Assets | | | | | |
| Cash and cash equivalents | 7 | 8,283 | 17,845 | 705 | 35 |
| Trade and other receivables | 8 | 48,473 | 24,342 | 22,937 | 6,699 |
| Other financial assets | 9 | 25,700 | 121 | - | - |
| Derivative financial instruments | 10 | 19,367 | 13,498 | - | - |
| Inventories | 11 | 4,030 | 12,013 | - | 1,140 |
| Other current assets | 12 | 2,027 | 1,108 | - | - |
| | | 107,880 | 68,927 | 23,642 | 7,874 |
| Investment properties classified as held for sale | 13 | - | 156,452 | - | - |
| Total current assets | | 107,880 | 225,379 | 23,642 | 7,874 |
| Non-Current Assets | | | | | |
| Investment properties | 14 | 1,120,716 | 927,113 | - | - |
| Available-for-sale financial assets | 15 | 11,457 | - | 275 | 275 |
| Investments in jointly controlled entity and associate | 16 | 80,593 | 66,245 | - | - |
| Investments in controlled entities | 17 | - | - | 475 | 475 |
| Other financial assets | 18 | - | 61,250 | - | - |
| Property, plant and equipment | 19 | 43,579 | 9,794 | - | - |
| Deferred tax assets | 20 | 3,846 | 5,005 | 5,379 | 5,860 |
| Intangible assets | 21 | 452 | 368 | - | - |
| Total non-current assets | | 1,260,643 | 1,069,775 | 6,129 | 6,610 |
| Total assets | | 1,368,523 | 1,295,154 | 29,771 | 14,484 |
| Current Liabilities | | | | | |
| Trade and other payables | 22 | 5,731 | 13,920 | 1,199 | 181 |
| Borrowings | 23 | 475,316 | 153,993 | - | - |
| Dividends/distributions payable | 24 | 17,583 | 15,740 | 7,028 | 5,590 |
| Current tax liabilities | | 2,196 | 882 | 2,196 | 882 |
| Provisions | 25 | 738 | 526 | - | - |
| Other current liabilities | 26 | 3,314 | 3,862 | - | - |
| Total current liabilities | | 504,878 | 188,923 | 10,423 | 6,653 |
| Non-Current Liabilities | | | | | |
| Borrowings | 23 | 148,132 | 432,973 | - | 211 |
| Provisions | 25 | 277 | 194 | - | - |
| Total non-current liabilities | | 148,409 | 433,167 | - | 211 |
| Total liabilities | | 653,287 | 622,090 | 10,423 | 6,864 |
| Net assets | | 715,236 | 673,064 | 19,348 | 7,620 |
| Equity attributable to shareholders | | | | | |
| Contributed equity | 27 | 43,644 | 43,347 | 43,644 | 43,347 |
| Reserves | 28 | 3,023 | 2,950 | 683 | 610 |
| Accumulated losses | 29 | (18,800) | (31,212) | (24,979) | (36,337) |
| Total equity attributable to shareholders | | 27,867 | 15,085 | 19,348 | 7,620 |
| Minority Interests | | | | | |
| Equity attributable to unitholders | | | | | |
| Contributed equity | 30 | 531,853 | 526,145 | - | - |
| Reserves | 30 | 130,966 | 131,834 | - | - |
| Undistributed income | 30 | 25,150 | - | - | - |
| Total equity attributable to unitholders | | 687,969 | 657,979 | - | - |
| External minority interest | 30 | (600) | - | - | - |
| Total equity attributable to securityholders | | 715,236 | 673,064 | 19,348 | 7,620 |

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity for the year ended 30 June 2008

| | Notes | Attributable to Equity Holders of the Company | | | | | Minority Interest (Trust) | Minority Interest (External) | Total Equity |
|--|-------|---|---------------------|----------------------------|------------------------------|----------|---------------------------|------------------------------|--------------|
| | | Con-tributed Equity | Accu-mulated Losses | Available-for-Sale Reserve | Share Based Payments Reserve | Total | | | |
| Consolidated | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| Balance at 1 July 2007 | | 43,347 | (31,212) | 2,340 | 610 | 15,085 | 657,979 | - | 673,064 |
| Changes in the fair value of available-for-sale financial assets, net of tax | 28 | - | - | - | - | - | (868) | - | (868) |
| Net income recognised directly in equity | | - | - | - | - | - | (868) | - | (868) |
| Profit for the year | | - | 19,440 | - | - | 19,440 | 88,557 | 11,904 | 119,901 |
| Total recognised income and expense for the year | | - | 19,440 | - | - | 19,440 | 87,689 | 11,904 | 119,033 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | | | |
| - Dividends/distributions paid/declared | 31 | - | (7,028) | - | - | (7,028) | (63,408) | - | (70,436) |
| - Contributions of equity | 27,30 | 535 | - | - | - | 535 | 10,152 | - | 10,687 |
| - Buy-back of stapled securities | 27,30 | (215) | - | - | - | (215) | (4,443) | - | (4,658) |
| - Buy-back transaction costs | 27 | (23) | - | - | - | (23) | - | - | (23) |
| - Employee share options | 28 | - | - | - | 73 | 73 | - | - | 73 |
| - Distribution to external minority interest | | - | - | - | - | - | - | (12,504) | (12,504) |
| Balance at 30 June 2008 | | 43,644 | (18,800) | 2,340 | 683 | 27,867 | 687,969 | (600) | 715,236 |
| Balance at 1 July 2006 | | 42,391 | (27,248) | 1,154 | 328 | 16,625 | - | - | 16,625 |
| Changes in the fair value of available-for-sale financial assets, net of tax | 28 | - | - | 1,186 | - | 1,186 | - | - | 1,186 |
| Net income recognised directly in equity | | - | - | 1,186 | - | 1,186 | - | - | 1,186 |
| Profit for the year | | - | 8,620 | - | - | 8,620 | 7,072 | - | 15,692 |
| Total recognised income and expense for the year | | - | 8,620 | 1,186 | - | 9,806 | 7,072 | - | 16,878 |
| Transfer from net assets attributable to unitholders ⁽¹⁾ | | | | | | | | | |
| - Contributed equity | | - | - | - | - | - | 526,119 | - | 526,119 |
| - Reserves | | - | - | - | - | - | 134,912 | - | 134,912 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | | | |
| - Dividends/distributions paid/declared | 31 | - | (12,584) | - | - | (12,584) | (10,150) | - | (22,734) |
| - Contributions of equity | 27 | 956 | - | - | - | 956 | 26 | - | 982 |
| - Employee share options | 28 | - | - | - | 282 | 282 | - | - | 282 |
| Balance at 30 June 2007 | | 43,347 | (31,212) | 2,340 | 610 | 15,085 | 657,979 | - | 673,064 |

(1) Under AIFRS net assets attributable to unitholders of the Trust were initially classified as a liability rather than equity due to the limited life of the Trust. On 1 June 2007 the constitution of the Trust was amended to effectively remove the limitation of the term of the Trust. Accordingly, as at 1 June 2007 the contributed equity (\$526,119,000) and reserves (\$134,912,000) of the Trust were transferred from liabilities to contributed equity and reserves respectively. All the 2007 changes in equity listed for the minority interest occurred in the month of June 2007.

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

| | Notes | Con-tributed Equity | Accu-mulated Losses | Share Based Pay-ments Reserve | Total |
|--|-------|---------------------|---------------------|-------------------------------|----------|
| Parent | | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2007 | | 43,347 | (36,337) | 610 | 7,620 |
| Net income recognised directly in equity | | - | - | - | - |
| Profit for the year | | - | 18,386 | - | 18,386 |
| Total recognised income and expense for the year | | - | 18,386 | - | 18,386 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| - Dividends paid/declared | 31 | - | (7,028) | - | (7,028) |
| - Contributions of equity | 27 | 535 | - | - | 535 |
| - Share buy-back | 27 | (215) | - | - | (215) |
| - Share buy-back transaction costs | 27 | (23) | - | - | (23) |
| - Employee share options | 28 | - | - | 73 | 73 |
| Balance at 30 June 2008 | | 43,644 | (24,979) | 683 | 19,348 |
| Balance at 1 July 2006 | | 42,391 | (30,115) | 328 | 12,604 |
| Net income recognised directly in equity | | - | - | - | - |
| Profit for the year | | - | 6,362 | - | 6,362 |
| Total recognised income and expense for the year | | - | 6,362 | - | 6,362 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| - Dividends paid/declared | 31 | - | (12,584) | - | (12,584) |
| - Contributions of equity | 27 | 956 | - | - | 956 |
| - Employee share options | 28 | - | - | 282 | 282 |
| Balance at 30 June 2007 | | 43,347 | (36,337) | 610 | 7,620 |

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

Cash Flow Statements for the year ended 30 June 2008

| | Notes | Consolidated | | Parent | |
|---|-------|----------------|----------------|----------------|----------------|
| | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Cash Flows From Operating Activities | | | | | |
| Cash receipts in the course of operations | | 162,392 | 95,142 | 25,526 | 14,045 |
| Cash payments in the course of operations | | (63,639) | (49,012) | (5,204) | (8,868) |
| Dividends received | | - | - | 2,000 | - |
| Distributions received | | 7,808 | 2,590 | 13 | 23 |
| Interest received | | 10,450 | 2,417 | 393 | 117 |
| Finance costs paid | | (30,804) | (22,567) | (37) | (148) |
| Income tax paid | | (868) | (956) | (868) | (956) |
| Reimbursements received from tax consolidated entities | | - | - | 661 | 1,106 |
| Net cash provided by operating activities | 35 | 85,339 | 27,614 | 22,484 | 5,319 |
| Cash Flows From Investing Activities | | | | | |
| Payments for property, plant and equipment | | (34,101) | (9,021) | - | - |
| Payments for investment properties | | (184,360) | (25,968) | - | - |
| Proceeds from sale of investment property | | 190,064 | 32,745 | - | - |
| Payment for investment in associate | | (10,000) | - | - | - |
| Payments for other financial assets | | (25,700) | - | - | - |
| Proceeds from other financial assets | | 61,371 | - | - | - |
| Payments for available-for-sale financial assets | | (21,337) | - | - | - |
| Payments for software and other assets | | (263) | (183) | - | - |
| Loans to schemes | | - | (6,000) | - | - |
| Loans to related entities | | (45,052) | (900) | (20,167) | - |
| Repayment of loans by related entities | | 16,972 | 2,500 | - | - |
| Loans to other persons | | (1,606) | - | - | - |
| Repayment of loans by other persons | | - | 736 | - | - |
| Repayments from director related entity | | - | 3,500 | - | - |
| Proceeds from sale of subsidiary (net of cash disposed) | 34 | - | (22) | - | - |
| Deconsolidation of subsidiary | 34 | - | (6,060) | - | - |
| Acquisition of Trust (net of cash acquired) | 33 | - | 11,761 | - | - |
| Net cash provided by/(used in) investing activities | | (54,012) | 3,088 | (20,167) | - |
| Cash Flows From Financing Activities | | | | | |
| Proceeds from borrowings | | 164,780 | 138,699 | - | - |
| Repayment of borrowings | | (128,475) | (145,320) | (211) | - |
| Payment of loan establishment costs | | (713) | - | - | - |
| Proceeds from issue of shares | | - | 139 | - | 139 |
| Proceeds from issue of treasury shares/securities | | 234 | 775 | 234 | 749 |
| Payments for buy-back of stapled securities | | (4,658) | - | (215) | - |
| Buy-back transaction costs | | (23) | - | (23) | - |
| Payment of dividends/distributions | 31 | (58,140) | (24,232) | (5,590) | (6,994) |
| Repayment of loans to controlled entities | | - | - | 4,158 | - |
| Payment for derivative financial instruments | | (1,390) | - | - | - |
| Payment of distributions to external minority interests | | (12,504) | - | - | - |
| Other payments | | - | (318) | - | - |
| Net cash provided by/(used in) financing activities | | (40,889) | (30,257) | (1,647) | (6,106) |
| Net increase/(decrease) in cash and cash equivalents | | (9,562) | 445 | 670 | (787) |
| Cash and cash equivalents at 1 July | | 17,845 | 17,400 | 35 | 822 |
| Cash and cash equivalents at 30 June | | 8,283 | 17,845 | 705 | 35 |

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the year ended 30 June 2008

1. Summary of Significant Accounting Policies

Cromwell Group was formed by the stapling of two entities comprising Cromwell Corporation Limited ('the Company') and its controlled entities, and Cromwell Diversified Property Trust ('the Trust') and its controlled entities. Cromwell Group is also defined as 'the Group'.

The Group was established for the purpose of facilitating a joint quotation of the Company and its controlled entities and the Trust and its controlled entities 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 interest 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. Refer to note 1(b)(i)(3).

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

Cromwell Corporation Limited is a company domiciled in Australia. The financial report includes separate financial statements for Cromwell Corporation Limited as an individual entity ("the Parent") and Cromwell Group, the stapled consolidated entity ('the Group') consisting of Cromwell Corporation Limited ('the Company') and its subsidiaries and Cromwell Diversified Property Trust ('the Trust') and its subsidiaries.

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 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 Company's functional currency and the functional currency of the Group.

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.

Notes to the Financial Statements continued

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.

In particular, 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 described in note 2.

(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 minority 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 Income Statement and Balance Sheet.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries 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 purchase method of accounting is used to account for the acquisition of subsidiaries 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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

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 investor's financial statements using the cost method and 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 the income statement 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 investor's individual income statement, while in the Group's financial statements they reduce 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 ventures

Joint venture entities

The interest in a joint venture entity is accounted for in the Group's financial statements using the equity method and is accounted for using the cost method by the venturer. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet.

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

Funds management Revenue is recognised as follows:

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

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

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 balance sheet as a receivable or if paid in advance, as rent in advance. 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.

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 income statement 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.

Notes to the Financial Statements continued

(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 doubtful debts. 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 doubtful debts 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 the income statement.

(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

This represents the Group's investment in various commercial, industrial and retail properties. Investment property is property which is held either to earn income or for capital appreciation or both. 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 during the period.

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.

Notes to the Financial Statements continued

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. A table showing the range of yields applied for each type of property in the current period is included below.

| Property Sector | Yields |
|--------------------|---------------|
| Commercial offices | 6.25% - 9.25% |
| Industrial | 7.00% - 8.00% |
| Retail | 8.50% - 9.00% |

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.

(i) Investments and other financial assets

The Group classifies its investments as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

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 sheet 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 the income statement. 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 and loss are subsequently carried at fair value. Loans, receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. 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 the income statement in the period in which they arise. Changes in the fair value of securities classified as available-for-

sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement 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 removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(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 the income statement 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 | 10-40% |
| Leasehold improvements | 10% |
| Leased plant and equipment | 10-40% |

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(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Property that is being constructed or developed for future use as investment property is accounted for as property, plant and equipment and is stated at cost until construction of the development is complete. At this time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised 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.

Notes to the Financial Statements continued

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 purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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.

(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 balance sheet 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 balance sheet 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 swaps 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 swaps 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 the income statement.

(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 sheet 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.

In prior periods, the units on issue in the Trust were classified as a financial liability under AASB 132 *Financial Instruments: Disclosure and Presentation*, due to the fixed life of the Trust. Consequently, distributions to Trust members (while the units were classified as a liability) have been recognised as finance costs. The Trust's constitution was amended on 1 June 2007 to remove the fixed life of the Trust. Accordingly, from that date units on issue are classified as a minority interest in equity and distributions are no longer expensed as finance costs.

(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:

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

Provisions are not recognised for future operating losses.

Notes to the Financial Statements continued

(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 sheet 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 the income statement 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 the income statement 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 the income statement 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 the profit 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.

Notes to the Financial Statements continued

(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 annual reporting period ended 30 June 2008 are as follows:

| Standard/Interpretation | Application date of standard | Application date for the Group |
|---|------------------------------|--------------------------------|
| AASB 3 Business Combinations – revised and consequential amendments to other accounting standards resulting from its issue | 1 Jul 2009 | 1 Jul 2009 |
| AASB 8 Operating Segments and consequential amendments to other accounting standards resulting from its issue | 1 Jan 2009 | 1 Jul 2009 |
| AASB 101 Presentation of Financial Statements – revised and consequential amendments to other accounting standards resulting from its issue | 1 Jan 2009 | 1 Jul 2009 |
| AASB 123 Borrowing Costs - revised and consequential amendments to other accounting standards resulting from its issue | 1 Jan 2009 | 1 Jul 2009 |
| AASB 127 Consolidated and Separate Financial Statements - revised and consequential amendments to other accounting standards resulting from its issue | 1 Jul 2009 | 1 Jul 2009 |
| AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations | 1 Jan 2009 | 1 Jul 2009 |
| AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation | 1 Jan 2009 | 1 Jul 2009 |
| AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 Jan 2009 | 1 Jul 2009 |
| AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | 1 Jul 2009 | 1 Jul 2009 |
| AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 Jan 2009 | 1 Jul 2009 |
| Interpretation 13 Customer Loyalty Programs | 1 Jul 2008 | 1 Jul 2008 |
| IFRIC 15 Agreements for the Construction of Real Estate | 1 Jan 2009 | 1 Jul 2009 |

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

The revised AASB 3 applies prospectively for all business combinations after it becomes effective. It introduces a number of changes which may have a significant impact on accounting for future business combinations. For example, it allows a choice for measuring non-controlling interests (minority interest) in an acquiree – either fair value or at the proportionate share of the acquiree's net identifiable assets. It also requires acquisition related costs to be accounted for separately from the business combination – which will usually mean they will be expensed. The directors have not yet assessed the impact the revised standard will have in future periods.

AASB 8 may impact segment disclosures. It is not expected to impact the amounts included in the financial statements except that it may impact the level at which goodwill, if any, is tested for impairment.

The revised AASB 101 is only expected to affect the presentation and disclosure of the financial report.

The revised AASB 123 will require that borrowing costs associated with qualifying assets be capitalised. The directors do not expect the revised standard will have a material impact as the Group has already adopted the allowed alternative treatment of capitalising borrowing costs attributable to qualifying assets.

The revised AASB 127 introduces a number of changes including requiring that changes in an ownership interest in a subsidiary that do not result in a loss of control be accounted for as equity transactions and net income being attributed to the parent and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors have not yet assessed the impact the revised standard will have in future periods.

AASB 2008-1 introduces a number of amendments in accounting for share-based payments including clarifying that vesting conditions comprise service conditions and performance conditions only. The Group may have or enter into share-based payment arrangements that could be affected by these amendments. However, the directors have not yet assessed the impact, if any.

AASB 2008-2 introduces amendments that allow an entity that issues certain puttable financial instruments to classify them as equity rather than financial liabilities. As the consolidated Group does not have any such financial instruments, these amendments are not expected to have an impact on the financial report in future years.

AASB 2008-5 and AASB 2008-6 – These amendments introduce various changes to IFRSs. The directors have not yet assessed the impact of the amendments, if any.

AASB 2008-7 introduces amendments that result in all dividends from a subsidiary, jointly controlled entity or associate being recognised in the separate financial statements of an investor as income.

Interpretation 13 – This interpretation deals with accounting for customer loyalty programmes. As the Group does not have any such programmes, the interpretation is not expected to have an impact on the financial report.

IFRIC 15 – This interpretation deals with accounting by real estate developers providing construction services. The directors have not yet assessed the impact of the amendments, if any.

2. Critical Accounting Estimates and Judgements

Critical accounting estimates and judgements are:

a) Estimates of fair value of interest rate derivatives. The fair value of interest rate derivatives has been determined by a third party financial institution by assessing the net present value of future cash flows of the interest rate derivatives based on certain assumptions including market expectations of interest rates and discount rates.

b) Assumptions underlying management's estimates of fair value. The Group has investment properties with a carrying amount of approximately \$1,120,716,000 (2007: \$927,113,000) representing estimated fair value. In addition, the carrying amount of the Group's investment in jointly controlled entity/associate of approximately \$80,593,000 (2007: \$66,245,000) also reflects investment properties carried at fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the independent valuers considered information about current and recent sales activity, current market rents and discount and capitalisation rates, for properties similar to those owned by the Group.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

3. Gain on Sale of Investment Properties

| | | | | |
|--|-----------|----------|---|---|
| Net proceeds from sale of investment properties | 190,064 | 32,745 | - | - |
| Carrying value of investment properties sold and other costs of sale | (182,594) | (27,782) | - | - |
| Gain on sale of investment properties | 7,470 | 4,963 | - | - |

4. Employee Benefits Expense

| | | | | |
|---|-------|-------|-----|-----|
| Wages and salaries including on costs | 8,115 | 7,039 | 329 | 66 |
| Contributions to defined contribution plans | 512 | 405 | - | - |
| Equity settled share-based payments | 95 | 282 | 73 | 282 |
| Increase in liability for long service and annual leave | 289 | 164 | - | - |
| | 9,011 | 7,890 | 402 | 348 |

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 5. Finance Costs (excluding Unitholders) | | | | |
| Total interest | 33,111 | 23,712 | 37 | 148 |
| Less: interest capitalised | (2,186) | (286) | - | - |
| Interest expense | 30,925 | 23,426 | 37 | 148 |
| Amortisation of loan establishment costs | 890 | 1,089 | - | - |
| Finance costs (excluding unitholders) | 31,815 | 24,515 | 37 | 148 |

6. Income Tax

| | | | | |
|---|----------|----------|---------|---------|
| Income tax expenses/(credit) | | | | |
| Current tax | 6,100 | 2,451 | 4,414 | 1,792 |
| Deferred tax | 103 | (311) | 130 | (202) |
| Prior year tax losses recognised | (2,959) | (2,870) | (2,959) | (2,870) |
| Adjustment in relation to prior periods | 98 | 7 | (577) | 7 |
| | 3,342 | (723) | 1,008 | (1,273) |
| Numerical reconciliation of income tax expenses/(credit) to prima facie tax | | | | |
| Profit before income tax and unitholders' finance costs | 123,243 | 113,234 | 19,394 | 5,089 |
| Unitholders' finance costs | - | (98,265) | - | - |
| Profit before income tax | 123,243 | 14,969 | 19,394 | 5,089 |
| Tax at the Australian tax rate of 30% (2007: 30%) | 36,973 | 4,491 | 5,818 | 1,527 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Non-taxable trust income | (26,567) | (2,122) | - | - |
| Non-deductible expenses | 43 | 63 | 24 | 63 |
| Non-taxable partnership income | (4,099) | - | (698) | - |
| Non-assessable income | (147) | (292) | (600) | - |
| Prior year tax losses recognised (note 20) | (2,959) | (2,870) | (2,959) | (2,870) |
| Adjustment in relation to prior periods | 98 | 7 | (577) | 7 |
| Income tax expense/(credit) | 3,342 | (723) | 1,008 | (1,273) |
| Unrecognised deferred tax assets | | | | |
| Deferred tax assets have not been recognised in respect of the following items: | | | | |
| Tax losses | 14,020 | 17,003 | 14,020 | 17,003 |

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items 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.

Amounts recognised directly in equity

Refer to note 20 for the aggregate deferred tax relating to items that are charged or credited to equity.

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 (2007: \$nil) as tax consolidation contributions by, or distributions to, equity participants (refer note 38 for further information).

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

7. Cash and Cash Equivalents

| | | | | |
|--------------|--------------|---------------|------------|-----------|
| Cash at bank | 5,499 | 14,797 | 112 | 35 |
| Deposits | 2,784 | 3,048 | 593 | - |
| | <u>8,283</u> | <u>17,845</u> | <u>705</u> | <u>35</u> |

Cash at bank is earning variable interest at market rates with a weighted average of 6.95% at 30 June 2008 (2007: 6.00%). The deposits are earning variable interest at market rates with a weighted average of 7.53% at 30 June 2008 (2007: 6.35%). The deposits have an average period to maturity of 30 days. At balance date cash and deposits were held with Australian financial institutions.

8. Trade and Other Receivables

| | | | | |
|--|---------------|---------------|---------------|--------------|
| Trade and other receivables | 3,750 | 9,305 | 345 | 2,001 |
| Loans – associate | 40,052 | 11,972 | - | - |
| – other persons | 4,671 | 3,065 | - | - |
| Amounts owing by controlled entities (refer note 38) | - | - | 22,592 | 4,698 |
| | <u>48,473</u> | <u>24,342</u> | <u>22,937</u> | <u>6,699</u> |

Trade and other receivables mainly comprise amounts owing by tenants of the Group's investment properties and other managed investment schemes. Trade and other receivables are usually non-interest bearing, unsecured and generally payable on no more than 30 day terms.

The net fair values of trade and other receivables approximate their carrying values.

Loan – associate

Cromwell Accumulation Fund

The Trust provided a loan of \$13,572,000 to Cromwell Accumulation Fund (a subsidiary of Cromwell Property Fund) during the 2007 year to fund the acquisition of investment properties. Subsequently, further advances of \$900,000 were made and repayments of \$2,500,000 were received prior to 30 June 2007. The loan was repaid in full during the 2008 financial year. The loan was unsecured, at call with no fixed repayment terms and earned interest at a floating rate.

Cromwell Property Fund and its subsidiaries

The Trust provided a loan of \$30,000,000 to Cromwell Property Fund during the 2008 year. Prior to balance date, the Cromwell Property Fund had made repayments of \$5,000,000. The loan is unsecured, at call with no fixed repayment terms and earns interest at a variable rate (capped at 8%) which was 8% at balance date.

Cromwell Paclib Nominees Pty Ltd, a subsidiary of the Parent, provided loans of \$15,052,000 to Cromwell Property Fund and its subsidiaries during the year. The loans are unsecured, at call with no fixed repayment terms and earn interest at a variable rate (BBSW) plus a margin of 1.50%, which was 9.05% at balance date.

Notes to the Financial Statements continued

Amounts owing by controlled entities

Cromwell Paclib Nominees Pty Ltd

The parent provided a loan of \$20,167,000 to Cromwell Paclib Nominees Pty Ltd during the 2008 year. The loan is unsecured, at call with no fixed repayment terms, repayable in cash and earns interest at a variable rate (BBSW) plus a margin of 1.50%, which was 9.05% at balance date.

Other controlled entities

These amounts are generally non-interest bearing, unsecured and repayable in cash at call.

Past due but not impaired receivables

As of 30 June 2008, trade and other receivables of \$7,026,000 (2007: \$8,338,000) were past due but not impaired. These relate to a number of tenants for whom there is no recent history of default and the \$4,671,000 (2007: \$3,065,000) loan to a property developer. In December 2007, the Group utilised its security to become mortgagee in possession of the property. The Group expects to take ownership of the property during 2009. Based on a valuation of the property conducted in April 2008 the Group expects to fully realise this receivable. No other significant receivables are past due but not impaired. As of 30 June 2008, no receivables relating to the Parent were past due.

Impaired receivables

No receivables have been determined to be impaired.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| | | | | |

9. Other Financial Assets

| | | | | |
|-----------------|--------|-----|---|---|
| Restricted cash | 25,700 | 121 | - | - |
|-----------------|--------|-----|---|---|

Restricted cash held on bank deposit at 30 June 2008 is used to provide security in relation to the CMBS borrowings (see note 23).

Restricted cash earns interest at floating rates with a weighted average rate at 6.95% (2007: 5.95%) at 30 June 2008.

The net fair values of other financial assets approximate their carrying values.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

10. Derivative Financial Instruments

| | | | | |
|-------------------------------------|--------|--------|---|---|
| Interest rate swaps – at fair value | 19,367 | 13,498 | – | – |
|-------------------------------------|--------|--------|---|---|

11. Inventories

Current

| | | | | |
|--|-------|--------|---|-------|
| Development property – at cost | | | | |
| Land * | – | 9,540 | – | 1,140 |
| Construction costs (refer note 17) | 1,990 | 1,848 | – | – |
| Capitalised interest | – | 625 | – | – |
| | 1,990 | 12,013 | – | 1,140 |
| Development property – at net realisable value | | | | |
| Construction costs (refer note 17) | 2,040 | – | – | – |
| | 4,030 | 12,013 | – | 1,140 |

* Relating to Bundall Corporate Centre (refer note 17)

12. Other Current Assets

| | | | | |
|-------------|-------|-------|---|---|
| Prepayments | 2,027 | 1,108 | – | – |
|-------------|-------|-------|---|---|

13. Investment Properties Classified as Held for Sale

| | | | | |
|---|-----------|---------|---|---|
| Investment properties – at fair value | – | 156,452 | – | – |
| Movement in assets held for sale | | | | |
| Balance at 1 July | 156,452 | – | – | – |
| Transfer from investment properties | – | 156,452 | – | – |
| Disposal of held for sale assets | (156,452) | – | – | – |
| Balance at 30 June | – | 156,452 | – | – |

During the year, settlements of the investment properties at 59 Goulburn Street, Sydney and the Bundall Corporate Centre were finalised.

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Investment properties – at fair value | 1,120,716 | 927,113 | – | – |
| Movement in investment properties | | | | |
| Balance at 1 July | 927,113 | – | – | – |
| Balances assumed at stapling (refer note 33) | – | 1,388,280 | – | – |
| Additions at cost | | | | |
| – Acquisition price | 166,025 | 22,725 | – | – |
| – Transaction costs | 13,259 | 1,356 | – | – |
| – Improvements | 3,215 | 1,224 | – | – |
| Disposal – property held by the Trust | (24,603) | (27,283) | – | – |
| Deconsolidation of CAF (refer note 34) | – | (23,968) | – | – |
| Deconsolidation of CPF (refer note 34) | – | (350,985) | – | – |
| Transfer to assets held for sale | – | (156,452) | – | – |
| Straight-lining rentals | 735 | 1,374 | – | – |
| Lease incentives | (369) | 493 | – | – |
| Leasing costs | 692 | 570 | – | – |
| Net gain from fair value adjustments | 34,649 | 69,779 | – | – |
| Balance at 30 June | 1,120,716 | 927,113 | – | – |
| Amounts recognised in profit and loss for investment properties | | | | |
| Rental and outgoings from investment properties | 89,658 | 60,702 | – | – |
| Direct operating expense from properties that generated rental income | (16,497) | (11,923) | – | – |
| | 73,161 | 48,779 | – | – |

Assets pledged as security

Loans (refer note 23) 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.

Leases as a lessor

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:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Within one year | 90,260 | 81,020 | - | - |
| Later than one year but not later than five years | 296,670 | 223,065 | - | - |
| Later than five years | 173,995 | 114,200 | - | - |
| | <u>560,925</u> | <u>418,285</u> | <u>-</u> | <u>-</u> |

Details of investment properties are set out below.

| | Title | Acquisition ⁽¹⁾ Date | Price | Most recent inde- pendent valuation date ⁽²⁾ | Independent valuation/ sale amount | | Carrying amount | | Fair value adjustment | |
|----------------------------------|-----------|------------------------------------|----------------|--|--|----------------|--------------------|----------------|--------------------------|----------------|
| | | | | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Properties held by CDPT: | | | | | | | | | | |
| NQX Property, QLD | Freehold | Feb 2003 | 17,778 | Dec 2007 | 27,300 | 25,000 | 27,301 | 25,052 | 2,243 | 2 |
| Henry Waymouth Centre, SA | Freehold | Apr 2003 | 30,420 | Dec 2007 | 42,000 | 38,500 | 42,035 | 38,501 | 3,500 | (27) |
| Hellman Distribution Centre, VIC | Freehold | Jun 2003 | 9,700 | Jun 2008 | 11,260 | 11,900 | 11,260 | 11,900 | (613) | 805 |
| Wesfarmers Woolstore, VIC | Freehold | Jun 2004 | 34,000 | Dec 2007 | 41,000 | 41,000 | 41,074 | 41,144 | (230) | - |
| Village Geelong Cinema, VIC | Freehold | Jun 2004 | 8,900 | Dec 2007 | 11,000 | 10,500 | 11,001 | 10,500 | 488 | - |
| Village City Centre, VIC | Freehold | Jun 2004 | 31,900 | Sold | - | - | - | - | - | (198) |
| Vodafone House, TAS | Freehold | Jun 2004 | 15,900 | Dec 2007 | 18,100 | 16,500 | 18,054 | 16,531 | 1,584 | 30 |
| Hobart Cinema Complex, TAS | Freehold | Jun 2004 | 16,000 | Dec 2007 | 15,450 | 15,450 | 15,573 | 15,476 | (175) | 9 |
| Village Launceston, TAS | Freehold | Jun 2004 | 3,500 | Dec 2007 | 3,100 | 3,400 | 3,139 | 3,430 | (331) | 3 |
| Heidelberg House, QLD | Freehold | Jun 2004 | 2,300 | Sold | - | 3,000 | - | 3,003 | - | - |
| Albury Cinema Centre, NSW | Freehold | Jun 2004 | 9,900 | Dec 2007 | 12,000 | 10,600 | 12,011 | 10,922 | 1,077 | (79) |
| Spicers Paper, WA | Freehold | Jun 2004 | 7,600 | Jun 2007 | 12,500 | 12,500 | 12,491 | 12,500 | - | 4,315 |
| Bird Cameron Building, WA | Freehold | Jun 2004 | 11,100 | Sold | - | 21,600 | - | 21,600 | - | 5,562 |
| Elders Woolstore, SA | Freehold | Jun 2004 | 10,900 | Jun 2008 | 15,400 | 15,800 | 15,400 | 15,800 | (481) | 2,337 |
| 700 Collins Street, VIC | Freehold | Dec 2004 | 133,000 | Dec 2007 | 183,500 | 161,300 | 183,479 | 161,263 | 22,272 | 12 |
| Forsyth Centre, VIC | Freehold | Feb 2005 | 41,000 | Jun 2008 | 44,450 | 47,000 | 44,450 | 47,000 | (2,550) | - |
| Centenary House, ACT | Leasehold | July 2005 | 35,530 | Jun 2008 | 35,500 | 40,750 | 35,500 | 41,198 | (6,025) | 5 |
| Bundall Corporate Centre, QLD | Freehold | Dec 2005 | 44,000 | Sold | - | 64,400 | - | 64,400 | - | 12,901 |
| 380 LaTrobe Street, VIC | Freehold | Dec 2005 | 88,000 | Jun 2008 | 110,000 | 95,000 | 110,000 | 95,538 | 14,517 | 43 |
| 101 Grenfell St, SA | Freehold | Jan 2006 | 30,375 | Jun 2008 | 36,800 | 35,000 | 36,800 | 35,000 | 1,215 | 3,997 |
| 475 Victoria Av, NSW | Freehold | Mar 2006 | 102,650 | Jun 2008 | 142,000 | 125,500 | 142,000 | 127,080 | 13,178 | 126 |
| | | | <u>684,453</u> | | <u>761,360</u> | <u>794,700</u> | <u>761,568</u> | <u>797,838</u> | <u>49,669</u> | <u>29,843</u> |

(1) Comprises original acquisition date and price for the Trust which was prior to the stapling transaction in December 2006.

(2) Most recent independent valuation obtained by the Trust.

Notes to the Financial Statements continued

| | Title | Acquisition date ⁽¹⁾ | Acquisition price ⁽¹⁾ | Most recent independent valuation date ⁽²⁾ | Independent valuation/sale amount | | Carrying amount | | Fair value adjustment | |
|---|-----------|---------------------------------|----------------------------------|---|-----------------------------------|----------------|-----------------|----------------|-----------------------|----------------|
| | | | | | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Properties held by Controlled Entities: ⁽³⁾ | | | | | | | | | | |
| 200 Mary St, Brisbane, QLD | Freehold | Jun 2001 | 29,250 | Jun 2008 | 100,000 | 100,000 | 100,000 | 100,000 | (420) | 22,035 |
| 59 Goulburn St, Sydney NSW | Freehold | May 2002 | 67,800 | Sold | - | 92,052 | - | 92,052 | - | 2,697 |
| Terrace Office Park, Brisbane, QLD | Freehold | Jun 1999 | 13,600 | Jun 2008 | 36,000 | 36,000 | 35,973 | 36,000 | - | 8,693 |
| 243 Northbourne Ave, Canberra, ACT | Leasehold | Nov 2001 | 23,550 | Jun 2008 | 34,000 | 33,200 | 34,000 | 33,200 | 413 | 3,991 |
| Quadrant Building, Canberra, ACT | Leasehold | Jun 2000 | 5,800 | Jun 2008 | 10,350 | 9,750 | 10,350 | 9,750 | 166 | 595 |
| Scrivener Building, Canberra, ACT | Leasehold | Jun 2000 | 10,750 | Jun 2008 | 12,800 | 14,725 | 12,800 | 14,725 | (1,920) | 1,925 |
| Tuggeranong Office Park, ACT | Leasehold | Jun 2008 | 166,025 | Jun 2008 | 166,025 | - | 166,025 | - | (13,259) | - |
| | | | 316,775 | | 359,175 | 285,727 | 359,148 | 285,727 | (15,020) | 39,936 |
| Total investment properties (including amounts classified as held for sale) | | | 1,001,228 | | 1,120,535 | 1,080,427 | 1,120,716 | 1,083,565 | 34,649 | 69,779 |
| Less investment properties classified as held for sale | | | | | | | - | (156,452) | | |
| Total investment properties | | | | | | | 1,120,716 | 927,113 | | |

(1) Comprises original acquisition date and price for the Syndicates, CAF and CPF which was mostly prior to the merger and stapling transactions in December 2006.

(2) Most recent independent valuation obtained by the Syndicates, CAF and CPF.

(3) Investment properties held by Syndicates were acquired by the Group following the merger and stapling transactions in December 2006.

(4) Investment properties held by CAF are no longer part of the Group following the disposal of CAF in June 2007 (refer to note 34).

(5) Investment properties held by CPF are no longer part of the Group following the loss of control of CPF in February 2007 (refer to note 34).

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 carried out at least 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.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

15. Available-for-sale Financial Assets

Listed securities

| | | | | |
|---|---------------|----------|------------|------------|
| – Equity securities – at fair value | 11,457 | – | – | – |
| Interests in managed investment scheme Cromwell Diversified Property Trust | – | – | 275 | 275 |
| | <u>11,457</u> | <u>–</u> | <u>275</u> | <u>275</u> |

Movement in available-for-sale financial assets

| | | | | |
|--|---------------|----------|------------|------------|
| Balance at 1 July | – | 3,213 | 275 | 275 |
| Additions – at cost | 21,337 | – | – | – |
| Revaluation – fair value adjustment | (9,880) | 1,695 | – | – |
| Consolidation adjustment upon stapling * | – | (4,908) | – | – |
| Balance at 30 June | <u>11,457</u> | <u>–</u> | <u>275</u> | <u>275</u> |

In 2008, the movements in the fair value of available-for-sale financial assets is attributable to the Trust unitholders (refer note 30). In 2007, the movement was attributable to Company shareholders (refer note 28).

* Elimination relates to interests held in Cromwell Mary Street Planned Investment prior to Stapling (refer note 33).

16. Investments in Jointly Controlled Entity and Associate

The Group has an investment in a jointly controlled entity, Cromwell TGA Planned Investment (“TGA”), and an associate, Cromwell Property Fund (“CPF”). The CPF was originally a controlled entity. Control was lost in February 2007 following the issue of units, by the CPF, to external unitholders (refer note 34). These entities were formed in Australia and their principal activity is property investment.

The Group holds a two-thirds interest in TGA which is held by the Trust. The remaining one-third interest was acquired by CPF during the year from an external investor. The Group exercises joint control over TGA, but neither the Group nor the CPF has control in its own right, irrespective of their ownership interest, as both the Group and the CPF must consent to the strategic, financial and operating decisions relating to TGA.

At 30 June 2008 the Group held 18% of the issued units of CPF. The Group is considered to have significant influence over the CPF due to its investment being the single largest investment in the CPF, with the next largest representing less than 1% of the issued units of CPF.

Notes to the Financial Statements continued

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

Equity accounting information

| | Ownership Interest | | Consolidated | |
|--|--------------------|-----------|----------------|----------------|
| | 2008 % | 2007 % | 2008 \$'000 | 2007 \$'000 |
| Investments accounted for using the equity method: | | | | |
| TGA – jointly controlled entity | 67% | 67% | 58,569 | 52,349 |
| CPF – associate | 18% | 22% | 22,024 | 13,896 |
| | | | <u>80,593</u> | <u>66,245</u> |

Movement in the carrying value of the Group's interest in its investments accounted for using the equity method during the 2008 and 2007 financial years was as follows:

| | CPF | TGA | Total |
|--|---------------|---------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| 2008 – Consolidated | | | |
| Balance 1 July | 13,896 | 52,349 | 66,245 |
| Additions – at cost | 10,000 | – | 10,000 |
| Gain on dilution ⁽¹⁾ | 826 | – | 826 |
| Share of profit/(loss) ⁽²⁾ | (630) | 10,987 | 10,357 |
| Distributions received | (2,068) | (4,767) | (6,835) |
| Balance 30 June | <u>22,024</u> | <u>58,569</u> | <u>80,593</u> |
| 2007 – Consolidated | | | |
| Investments acquired on stapling (refer note 33) | – | 52,211 | 52,211 |
| Transfer from controlled entity (refer note 34) | 7,921 | – | 7,921 |
| Gain on dilution ⁽¹⁾ | 6,341 | – | 6,341 |
| Share of profit | 244 | 2,174 | 2,418 |
| Distributions received | (610) | (2,036) | (2,646) |
| Balance 30 June | <u>13,896</u> | <u>52,349</u> | <u>66,245</u> |

(1) The gain on dilution of \$826,000 (2007: \$6,341,000) was recognised on the basis of the Group's interest in the net assets attributable to unitholders of the CPF increasing since deconsolidation following the raising of additional funds from external unitholders.

(2) TGA's 2008 share of profit includes gain on fair value adjustment to investment property.

Details of the Group's share of jointly controlled entity's/associate's financial information at balance date are as follows:

| | 2008 | | 2007 | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | CPF \$'000 | TGA \$'000 | CPF \$'000 | TGA \$'000 |
| Assets | | | | |
| Current assets | 2,554 | 245 | 2,767 | 406 |
| Non-current assets | | | | |
| Investment properties – at fair value | 70,812 | 58,624 | 84,291 | 52,068 |
| Other | 13,139 | – | 4,723 | – |
| Total non-current assets | 83,951 | 58,624 | 89,014 | 52,068 |
| Total assets | 86,505 | 58,869 | 91,781 | 52,474 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Borrowings | (11,249) | – | (47,290) | – |
| Other | (1,875) | (300) | (1,730) | (125) |
| Total current liabilities | (13,124) | (300) | (49,020) | (125) |
| Non-current liabilities | | | | |
| Borrowings | (51,357) | – | (28,865) | – |
| Other | – | – | – | – |
| Total non-current liabilities | (51,357) | – | (28,865) | – |
| Total liabilities | (64,481) | (300) | (77,885) | (125) |
| Net assets | 22,024 | 58,569 | 13,896 | 52,349 |
| Revenue | 8,175 | 11,410 | 6,938 | 2,367 |
| Expenses | (8,805) | (423) | (6,694) | (193) |
| Share of profit/(loss) | (630) | 10,987 | 244 | 2,174 |

The reporting dates of the jointly controlled entity and associate 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. The jointly controlled entity and associate do not recognise income tax expense or liabilities given their nature.

Investments in equity accounted entities are initially accounted for (recognised) at cost by the relevant entity holding the interest. The carrying amount is reduced where the fair value of the underlying interest, primarily representing an indirect interest in a share of an investment property, is less than cost or the equity accounted carrying amount.

There were no investments in jointly controlled entities or associates by the parent.

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

17. Investments in Controlled Entities

| | | | | |
|----------------------------------|---|---|-----|-----|
| Shares in subsidiaries – at cost | – | – | 475 | 475 |
|----------------------------------|---|---|-----|-----|

| Shares in subsidiaries Name | Country of Formation | Equity Holding | | Carrying Value of Parent's Investment | |
|---|-------------------------|-------------------|------|--|--------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | % | % | \$'000 | \$'000 |
| Cromwell Property Securities Limited | Australia | 100 | 100 | 345 | 345 |
| Cromwell Property Services Pty Ltd | Australia | 100 | 100 | – | – |
| Marcoola Developments Pty Ltd | Australia | 100 | 100 | 30 | 30 |
| Votrait No. 662 Pty Ltd | Australia | 100 | 100 | – | – |
| Peels Trust | Australia | 100 | 100 | – | – |
| Cromwell Capital Limited | Australia | 100 | 100 | – | – |
| Cromwell Finance Limited | Australia | 100 | 100 | 100 | 100 |
| Cromwell Operations Pty Ltd | Australia | 100 | 100 | – | – |
| Bundall Corporate Centre Holdings Pty Ltd | Australia | 50 | 50 | – | – |
| Bundall Corporate Centre Partnership | Australia | 50 | 50 | – | – |
| Cromwell Paclib Nominees Pty Ltd | Australia | 50 | – | – | – |
| | | | | 475 | 475 |

| Trust and its controlled entities Name | Country of Formation | Equity Holding | |
|--|-------------------------|-------------------|-----------|
| | | 2008 % | 2007 % |
| Cromwell CMBS Pty Ltd | Australia | * | * |
| Cromwell Loan Note Pty Ltd | Australia | * | * |
| Cromwell Holding Trust No 1 | Australia | * | * |
| Cromwell Holding Trust No 2 | Australia | * | * |
| Cromwell Holding Trust No 4 | Australia | * | * |
| Terrace Office Park Property Trust/Planned Investment | Australia | * | * |
| Cromwell Mary Street Property Trust/Planned Investment | Australia | * | * |
| Cromwell Goulburn Street Property Trust/Planned Investment | Australia | * | * |
| Cromwell Northbourne Planned Investment | Australia | * | * |
| Cromwell Planned Investment #3 | Australia | * | * |
| Tuggeranong Head Trust | Australia | * | – |
| Tuggeranong Trust | Australia | * | – |
| Cromwell Phoenix Property Securities Fund | Australia | * | – |

* The Trust and its controlled entities listed above are consolidated as part of the Group as required under accounting standards (refer to note 1(b)). The Trust owns 100% of each of its controlled entities except for Cromwell Phoenix Securities Fund (94%) and Cromwell Mary Street Planned Investment (92%). The other 8% of Cromwell Mary Street Planned Investment is held by a subsidiary of the parent (being Cromwell Property Securities Limited). The units in the Trust are stapled with the shares of the parent as described in note 33.

Cromwell Property Securities Limited ("CPS") holds an Australian Financial Services Licence (AFSL) and acts as responsible entity for the managed investment schemes 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. Refer also to note 35.

Bundall Corporate Centre Holdings Pty Ltd ("BCCH") is the nominee for the Bundall Corporate Centre Partnership which the parent entity holds a 50% interest but controls through the appointment of a chairman with a casting vote. The partnership was formed during the 2006 financial year to lease property at Bundall on the Gold Coast from Cromwell Diversified Property Trust. Under the arrangement the partnership was to develop the land. The property was sold in October 2007 and the partnership realised profit of \$25,008,000 which was shared between the parent and the external minority interest. Apart from the holding of the land and subsequent sale, the partnership has had no other significant trading. In particular, it has had no other significant revenue, expense or equity contributions.

Cromwell Paclib Nominees Pty Ltd ("CPN") was formed in the current year. The parent holds a 50% interest but controls CPN through the appointment of a chairman with a casting vote. CPN was formed to develop property held by Cromwell Property Fund and its subsidiaries under a development lease with development costs (included in inventories – note 11). The parent has provided loans to CPN totalling \$20,167,000 (note 8). CPN has provided loans totalling \$15,052,000 to Cromwell Property Fund and its subsidiaries (note 8). Several lots of land being developed by CPN are currently under contract at balance date. Any profit earned will be shared between the parent and the external minority interest. Apart from the loans and inventory, CPN has had no other significant trading. In particular, it has had no significant revenue, expenses or equity contributions.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

18. Other Financial Assets

Non-current

| | | | | |
|-----------------------------|---|--------|---|---|
| Convertible financing units | - | 61,250 | - | - |
|-----------------------------|---|--------|---|---|

During the 2008 year the Cromwell Property Fund repaid the 61,250,000 convertible financing units ("CFUs") held by the Group. All CFUs on issue were held by the Group and were repaid at their issue price of \$1 each.

The net fair values of other financial assets approximate their carrying values.

19. Property Plant and Equipment

| | | | | |
|---|--------|-------|---|---|
| Property under construction – at cost | 42,155 | 8,507 | - | - |
| Leasehold improvements – at cost | 992 | 697 | - | - |
| Accumulated depreciation | (288) | (213) | - | - |
| | 704 | 484 | - | - |
| Plant and equipment – at cost | 1,105 | 990 | - | - |
| Accumulated depreciation | (672) | (525) | - | - |
| | 433 | 465 | - | - |
| Plant and equipment under finance lease – at cost | 514 | 514 | - | - |
| Accumulated depreciation | (227) | (176) | - | - |
| | 287 | 338 | - | - |
| | 43,579 | 9,794 | - | - |

Notes to the Financial Statements continued

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

| Consolidated | Plant and Equipment | | | | Total |
|---------------------------------|-----------------------------|------------------------|--------|-------------|----------|
| | Property Under Construction | Leasehold Improvements | Owned | Under Lease | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at 1 July 2007 | 8,507 | 484 | 465 | 338 | 9,794 |
| Additions | 33,648 ⁽¹⁾ | 309 | 144 | - | 34,101 |
| Disposals | - | (6) | (19) | - | (25) |
| Depreciation | - | (83) | (157) | (51) | (291) |
| Carrying amount at 30 June 2008 | 42,155 | 704 | 433 | 287 | 43,579 |
| Carrying amount at 1 July 2006 | - | 533 | 494 | 376 | 1,403 |
| Additions | 33,004 ⁽¹⁾ | 8 | 172 | 2 | 33,186 |
| Disposals | (24,497) ⁽²⁾ | - | (38) | - | (24,535) |
| Depreciation | - | (57) | (163) | (40) | (260) |
| Carrying amount at 30 June 2007 | 8,507 | 484 | 465 | 338 | 9,794 |
| Parent | | | | | |
| Carrying amount at 30 June 2008 | - | - | - | - | - |
| Carrying amount at 30 June 2007 | - | - | - | - | - |

(1) Represented by:

| | 2008 \$'000 | 2007 \$'000 |
|------------------------|----------------|----------------|
| Acquired on stapling | - | 24,163 |
| Additions at cost: | | |
| - Acquisition price | - | 7,100 |
| - Transaction costs | 8 | 364 |
| - Construction costs | 30,965 | 225 |
| - Holding costs | 489 | 866 |
| - Capitalised interest | 2,186 | 286 |
| | 33,648 | 33,004 |

(2) Disposal of \$24,497,000 was recognised on sale of units in Cromwell Accumulation Fund – refer note 34.

Contractual commitments for the acquisition of property, plant and equipment are disclosed in note 40.

Assets pledged as security

Loans (refer note 23) are secured by a registered floating charge over the assets of the Trust.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

20. Deferred Tax Assets

| | | | | |
|---------------------|-------|-------|-------|-------|
| Deferred tax assets | 3,846 | 5,005 | 5,379 | 5,860 |
|---------------------|-------|-------|-------|-------|

Deferred tax assets and liabilities are attributable to the following:

| | | | | |
|---|---------|---------|-------|-------|
| Interests in managed investment schemes | (1,860) | (1,562) | (7) | (13) |
| Payables | 27 | 86 | 17 | - |
| Employee benefits | 279 | 186 | - | - |
| Provisions | 30 | 30 | - | - |
| Other accruals and sundry items | 145 | 676 | 144 | 284 |
| Tax losses recognised | 5,225 | 5,589 | 5,225 | 5,589 |
| | 3,846 | 5,005 | 5,379 | 5,860 |

Movements

| | | | | |
|---|---------|---------|---------|---------|
| Balance at 1 July | 5,005 | 3,902 | 5,860 | 4,357 |
| Reduction in current tax liability on use of tax losses previously recognised | (3,904) | (1,569) | (3,904) | (1,569) |
| (Debit)/credit to income statement | (103) | 311 | (130) | 202 |
| Prior year tax losses recognised (note 6) | 2,959 | 2,870 | 2,959 | 2,870 |
| Charged to reserve (note 28) | - | (509) | - | - |
| Adjustments in relation to prior periods | (111) | - | 594 | - |
| Balance at 30 June | 3,846 | 5,005 | 5,379 | 5,860 |

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 have been 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).

21. Intangible Assets

| | | | | |
|--------------------------|-------|-------|---|---|
| Software – at cost | 1,111 | 849 | - | - |
| Accumulated amortisation | (659) | (481) | - | - |
| | 452 | 368 | - | - |

Software has been acquired externally. Amortisation of software is included in amortisation/depreciation expense in the income statement.

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

| | | | | |
|---------------------------------|-------|-------|---|---|
| Carrying amount at 1 July | 368 | 339 | - | - |
| Additions – acquired separately | 263 | 230 | - | - |
| Disposals | - | (47) | - | - |
| Amortisation | (179) | (154) | - | - |
| Carrying amount at 30 June | 452 | 368 | - | - |

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

22. Trade and Other Payables

| | | | | |
|-----------------------------|--------------|---------------|--------------|------------|
| Trade payables and accruals | 5,555 | 13,530 | 1,199 | 181 |
| Security deposits | 176 | 390 | - | - |
| | <u>5,731</u> | <u>13,920</u> | <u>1,199</u> | <u>181</u> |

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

The net fair values of trade and other payables approximate their carrying values.

23. Borrowings

Borrowings

Current

Secured

| | | | | |
|---|----------------|----------------|----------|----------|
| Commercial mortgage backed security notes | 428,265 | - | - | - |
| Loans - financial institutions | 43,566 | 144,106 | - | - |
| Debentures | 3,429 | 9,812 | - | - |
| Lease liabilities | 56 | 75 | - | - |
| | <u>475,316</u> | <u>153,993</u> | <u>-</u> | <u>-</u> |

Non-Current

Secured

| | | | | |
|---|----------------|----------------|----------|----------|
| Commercial mortgage backed security notes | - | 427,993 | - | - |
| Loans - financial institutions | 147,615 | - | - | - |
| Debentures | 497 | 4,692 | - | - |
| Lease liabilities | 20 | 77 | - | - |
| | <u>148,132</u> | <u>432,762</u> | <u>-</u> | <u>-</u> |

Unsecured

| | | | | |
|----------------------------|----------------|----------------|----------|------------|
| Property preference shares | - | 211 | - | 211 |
| | <u>148,132</u> | <u>432,973</u> | <u>-</u> | <u>211</u> |

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

| | | | | |
|--------------------------------|----------------|----------------|----------|------------|
| Due within one year | 520,233 | 186,056 | - | - |
| Due between one and five years | 83,634 | 455,379 | - | 211 |
| Due after five years | 126,758 | - | - | - |
| | <u>730,625</u> | <u>641,435</u> | <u>-</u> | <u>211</u> |

Commercial Mortgage Backed Security (“CMBS”) Note Issue

The CMBS facility, repayable in April 2009, is secured by first registered mortgages over all investment properties held by the Group and a registered floating charge over the assets of the Trust. Interest is payable to the note holders monthly in arrears at variable rates based on a margin over the 30 day BBSW rate which was 7.55% (2007: 6.33%) at balance date.

The CMBS issue comprises five tranches rated by a recognised rating agency, comprising 266 million Class A notes (AAA), 42 million Class B notes (AA), 43 million Class C notes (A), 56 million Class D notes (BBB) and 22 million Class E notes (BBB-). All \$429,000,000 raised through the CMBS issue (2007: \$288,000,000) is effectively at fixed interest rates through interest rate swap arrangements.

Financial Institution Loans

Details regarding financial institution (bank) loans at balance date are as follows:

Loan on investment in Cromwell TGA Planned Investment (see note 16)

The Group has a \$27,000,000 (2007: \$27,000,000) loan in relation to its investment 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 the TGA (these assets are reflected in the carrying value of the investment in jointly controlled entity). The loan was refinanced during 2008 and now matures in March 2011 and bears interest at a variable rate which was 8.40% (2007: 6.89%) at balance date. The loan is effectively fixed through interest rate swap arrangements to August 2010.

Loan on property under construction (see note 19)

The Group has a \$40,261,000 (2007: \$nil) loan in relation to property under construction. The loan is secured by a registered floating charge over the assets of the Trust specific to the land at 79-88 Musk Ave in Kelvin Grove Urban Village, being the property under construction. The loan matures in May 2009 and bears interest at a variable rate which was 8.25% at balance date.

Loan on investment in Tuggeranong Office Park (see note 14)

The Group has a \$124,519,000 (2007: \$nil) loan in relation to an investment property 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 loan matures in June 2015 with \$830,125 being repayable each quarter until June 2013. The loan bears variable interest which was 8.73% at balance date.

The amounts of the CMBS note issue and loans shown above comprise the gross values of the respective borrowings. Under accounting standards the amounts recognised in the balance sheet are net of transaction costs which are subsequently amortised using the effective interest method.

Debentures

Cromwell Finance Limited (“CFL”), a controlled entity, has issued fixed interest debentures. The terms of the debentures varies between 1 – 3 years from issue date. The debentures are secured by a first ranking charge over all of the assets of CFL. The assets of CFL comprise cash and cash equivalents of \$117,000 (2007: \$381,000) and loans receivable from other Group entities of \$4,276,000 (2007: \$14,718,000). Payment of interest and principal is guaranteed by Cromwell Corporation Limited. The proceeds of the debentures are principally used to assist in property and property finance related transactions. The interest rate is fixed for the term of each debenture and is payable at an effective rate of 8% (2007: 8%). Interest is payable monthly in arrears and principal is repayable at varying times throughout the year on maturity of the relevant debentures.

Lease Liabilities

Lease liabilities are effectively secured as the rights to the relevant assets (being leased property, plant and equipment) revert to the lessor or financier in the event of default.

Finance Facilities

At 30 June 2008 the Group had unused finance facilities totalling \$51,239,000 (2007: \$nil). This facility is restricted to the property under construction (refer note 19 and 40).

Notes to the Financial Statements continued

Interest Rate Risk

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.

| | Fixed interest rate maturing in | | | | | | | |
|----------------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------|--------------|
| | 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 |
| 2008 | | | | | | | | |
| CMBS note issue | 428,265 | - | - | - | - | - | - | 428,265 |
| Financial institution loans | 191,181 | - | - | - | - | - | - | 191,181 |
| Debentures | - | 3,429 | 497 | - | - | - | - | 3,926 |
| Lease liabilities | - | 56 | 20 | - | - | - | - | 76 |
| Interest rate swaps * | (456,000) | 246,015 | 15,060 | 76,745 | - | - | 118,180 | - |
| | 163,446 | 249,500 | 15,577 | 76,745 | - | - | 118,180 | 623,448 |
| Weighted average interest rate % | 7.15% | 6.15% | 5.72% | 5.53% | - | - | 5.89% | |
| 2007 | | | | | | | | |
| CMBS note issue | 427,993 | - | - | - | - | - | - | 427,993 |
| Financial institution loans | 144,106 | - | - | - | - | - | - | 144,106 |
| Debentures | - | 9,812 | 4,692 | - | - | - | - | 14,504 |
| Lease liabilities | - | 75 | 77 | - | - | - | - | 152 |
| Property preference shares | - | 211 | - | - | - | - | - | 211 |
| Interest rate swaps * | (315,255) | 5,820 | 99,450 | 15,060 | 76,745 | - | 118,180 | - |
| | 256,844 | 15,918 | 104,219 | 15,060 | 76,745 | - | 118,180 | 586,966 |
| Weighted average interest rate % | 6.28% | 6.81% | 5.45% | 5.59% | 5.50% | - | 5.81% | |

* notional principal amounts

The net fair values of borrowings approximate their carrying values.

| | Consolidated | | Parent | |
|---------------------------------|--------------|-------------|-------------|-------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Dividends/distributions payable | 17,583 | 15,740 | 7,028 | 5,590 |

Distributions payable relate to June quarter distribution declared in June 2008.

25. Provisions

Current

| | | | | |
|-------------------|-----|-----|---|---|
| Employee benefits | 738 | 526 | - | - |
|-------------------|-----|-----|---|---|

Non-Current

| | | | | |
|-------------------|-----|-----|---|---|
| Employee benefits | 177 | 94 | - | - |
| Restoration | 100 | 100 | - | - |
| | 277 | 194 | - | - |

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. Movements in provision for restoration were as follows:

| | Consolidated | | Parent | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Balance 1 July | 100 | 92 | - | - |
| Additional provisions recognised | - | 8 | - | - |
| Balance 30 June | 100 | 100 | - | - |

26. Other Current Liabilities

| | | | | |
|-----------------|-------|-------|---|---|
| Lease incentive | - | 3 | - | - |
| Unearned income | 3,314 | 3,859 | - | - |
| | 3,314 | 3,862 | - | - |

Unearned income comprises rent paid in advance by tenants.

27. Contributed Equity

Share Capital

| | | | | |
|--|--------|--------|--------|--------|
| 702,816,227 (2007: 698,783,980) fully paid ordinary shares | 43,644 | 43,347 | 43,644 | 43,347 |
|--|--------|--------|--------|--------|

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.

Notes to the Financial Statements continued

Movements in ordinary share capital

| | No. of Shares | \$'000 |
|---|---------------|--------|
| Balance – 30 June 2006 | 152,329,146 | 42,391 |
| Issue of treasury shares to employees for cash on exercise of options | 3,145,000 | 748 |
| Reconstruction of issued equity on a 0.8879:1 basis prior to stapling – refer note 33 | (17,428,250) | – |
| Issue of shares for stapling – refer note 33 | 556,969,129 | 139 |
| | 695,015,025 | 43,278 |
| Shares issued as payment to advisor | 462,963 | 8 |
| DRP issue – 20 March 2007 (1) | 1,485,360 | 28 |
| DRP issue – 21 May 2007 (1) | 1,718,992 | 32 |
| Issue of treasury shares to employees for cash on exercise of options | 101,640 | 1 |
| Balance – 30 June 2007 | 698,783,980 | 43,347 |
| DRP issue – 31 August 2007 (1) | 3,218,140 | 84 |
| DRP issue – 15 November 2007 (1) | 3,109,201 | 87 |
| DRP issue – 15 February 2008 (1) | 2,602,859 | 130 |
| Share buy-back – 13 February 2008 to 26 June 2008 (2) | (5,565,342) | (215) |
| Issue of treasury shares to employees for cash on exercise of options | 667,389 | 234 |
| Share buy-back transaction costs | – | (23) |
| Balance – 30 June 2008 | 702,816,227 | 43,644 |

(1) The Group has established a distribution reinvestment plan (DRP) under which stapled security holders may elect to have all or part of their dividend/distribution entitlements satisfied by the issue of new stapled securities rather than being paid in cash. The DRP was suspended following the December 2007 quarterly distribution.

(2) The Group announced an on-market buy-back of up to 69 million stapled securities in January 2008.

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 42). Total number of fully paid ordinary shares at balance date comprises:

| | 2008 | 2007 |
|--------------------------------|-------------|-------------|
| | Number | Number |
| Ordinary shares as shown above | 702,816,227 | 698,783,980 |
| Treasury shares held by ESOP | 268,707 | 936,096 |
| | 703,084,934 | 699,720,076 |

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:

| | 2008 | 2008 | 2007 | 2007 |
|--|--------------------|--------------------|--------------------|--------------------|
| | Company Number | Trust Number | Company Number | Trust Number |
| Ordinary shares / ordinary units | 702,816,227 | 703,360,040 | 698,783,980 | 699,995,182 |
| Treasury stapled securities held by ESOP * | 268,707 | - | 636,096 | - |
| Unstapled units (held by the Company) | - | (275,106) | - | (275,106) |
| | <u>703,084,934</u> | <u>703,084,934</u> | <u>699,720,076</u> | <u>699,720,076</u> |

* The ESOP holds a similar number of Trust units which are included in the total of 703,084,934 (2007: 699,995,182) units.

Options

Information relating to the Employee Share Ownership Plan (ESOP) and Performance Rights Plan (PRP), including details of options issued, exercised and lapsed during the financial year, is set out in note 42.

| | Consolidated | | Parent | |
|--|--------------|--------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |

28. Reserves

| | | | | |
|---|--------------|--------------|------------|------------|
| Share based payments | 683 | 610 | 683 | 610 |
| Available-for-sale financial assets revaluation reserve | 2,340 | 2,340 | - | - |
| | <u>3,023</u> | <u>2,950</u> | <u>683</u> | <u>610</u> |

Movements in reserves

Share based payments

| | | | | |
|--------------------|------------|------------|------------|------------|
| Balance at 1 July | 610 | 328 | 610 | 328 |
| Options expensed | 73 | 282 | 73 | 282 |
| Balance at 30 June | <u>683</u> | <u>610</u> | <u>683</u> | <u>610</u> |

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

| | | | | |
|---------------------|--------------|--------------|----------|----------|
| Balance at 1 July | 2,340 | 1,154 | - | - |
| Revaluation – gross | - | 1,695 | - | - |
| – deferred tax | - | (509) | - | - |
| Balance at 30 June | <u>2,340</u> | <u>2,340</u> | <u>-</u> | <u>-</u> |

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.

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

29. Accumulated Losses

Movements in accumulated losses

| | | | | |
|-------------------------------|----------|----------|----------|----------|
| Accumulated losses at 1 July | (31,212) | (27,248) | (36,337) | (30,115) |
| Net profit for the year | 19,440 | 8,620 | 18,386 | 6,362 |
| Dividends paid/payable | (7,028) | (12,584) | (7,028) | (12,584) |
| Accumulated losses at 30 June | (18,800) | (31,212) | (24,979) | (36,337) |

| | Consolidated | |
|--|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |

30. Minority Interests

Equity attributable to unitholders:

| | | |
|----------------------------|----------------|----------------|
| Contributed equity | 531,853 | 526,145 |
| Reserves | 130,966 | 131,834 |
| Undistributed income | 25,150 | - |
| | <u>687,969</u> | <u>657,979</u> |
| External minority interest | (600) | - |

Losses attributable to external minority interest have been recognised on the basis that the external minority interest has a binding obligation and is able to make an additional investment to cover the losses.

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 minority interests. Even though the interests of the equity holders of the identified acquiree (the Trust) are treated as minority interests (as above) the equity holders of the acquiree are also equity holders in the acquirer (the Company) by virtue of the stapling arrangement.

| | Consolidated | |
|---|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |
| Movements in contributed equity – unitholders | | |
| Balance at 1 July | 526,145 | – |
| Transferred from net assets attributable to unitholders | – | 526,119 |
| DRP issues | 10,151 | – |
| Buyback of units | (4,443) | – |
| Other contribution | – | 26 |
| Balance at 30 June | 531,853 | 526,145 |
| Movements in reserve – unitholders | | |
| Available-for-sale financial assets revaluation reserve | | |
| Balance at 1 July | – | – |
| Revaluation | (9,879) | – |
| Impairment loss transferred to income statement | 9,011 | – |
| Balance at 30 June | (868) | – |
| General reserve | | |
| Balance at 1 July | 131,834 | – |
| Transfer from net assets attributable to unitholders | – | 134,912 |
| Transfer to undistributed income | – | (3,078) |
| Balance at 30 June | 131,834 | 131,834 |
| | 130,966 | 131,834 |
| Movement in undistributed income – unitholders | | |
| Balance at 1 July | – | – |
| Profit for the year | 88,557 | 7,072 |
| Distributions paid/payable | (63,407) | (10,150) |
| Transfer from general reserve | – | 3,078 |
| | 25,150 | – |

Up to 1 June 2007 the minority interests in contributed equity and reserves were recorded as a liability, net assets attributable to unitholders. On 1 June 2007 the constitution of the Trust was amended and net assets attributable to unitholders were transferred to contributed equity and reserves. A reconciliation of the movement is as follows:

| | \$'000 |
|--|----------|
| Opening net assets attributable to unitholders – note 33 | 583,970 |
| Distributions before 1 June 2007 – note 31 | (20,928) |
| Unitholders' finance costs | 98,265 |
| Other | (276) |
| | 661,031 |
| Reclassified on 1 June 2007: | |
| Transfer to contributed equity | 526,119 |
| Transfer to reserves | 134,912 |
| | 661,031 |

Notes to the Financial Statements continued

| | Parent | |
|--|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |

31. Dividends/Distributions

Dividends paid/payable

Final dividend for the year ended 30 June 2006 of 4.5 cents per fully paid ordinary share paid on 12 October 2006:

| | | |
|---|---|-------|
| - Fully franked based on tax paid @ 30% – 1.5 cents per share | – | 2,285 |
| - Unfranked – 3.0 cents per share | – | 4,570 |

Interim dividend (stapling) of 0.1 cents per fully paid ordinary share paid on 18 December 2006 (fully franked based on tax paid @ 30%) (1)

| | | |
|--|---|-----|
| | – | 139 |
|--|---|-----|

Final dividend for the year ended 30 June 2008 of 1.0 cents (2007: 0.8 cents) per fully paid ordinary share, declared with a record date of 24 June 2008 (2007: 29 June 2007) and paid/payable on 29 August 2008 (2007: 31 August 2007):

| | | |
|---|-------|--------|
| - Fully franked based on tax paid @ 30% – 0.50 cents per share (2007: 0.27 cents per share) | 3,514 | 1,863 |
| - Unfranked – 0.50 cents per share (2007: 0.53 cents per share) | 3,514 | 3,727 |
| | 7,028 | 12,584 |

Franked dividends

| | | |
|---|-----|----|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2007 – 30%) | 690 | 63 |
|---|-----|----|

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

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

| | Consolidated | |
|--|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |

Distributions paid/payable by the Trust

At stapling:

| | | |
|---|---|-----|
| Interim stapling distribution of 0.025 cents per fully paid ordinary unit paid on 18 December 2006 ⁽¹⁾ | – | 139 |
|---|---|-----|

After stapling up to 1 June 2007 ⁽²⁾

| | | |
|---|---|--------|
| Interim distribution of 1.5 cents per fully paid stapled security paid on 20 March 2007 | – | 10,458 |
| Interim distribution of 1.5 cents per fully paid stapled security paid on 21 May 2007 | – | 10,470 |
| | – | 20,928 |

After 1 June 2007 ⁽³⁾

| | | |
|--|---|--------|
| Final distribution for the year ended 30 June 2007 of 1.45 cents per fully paid stapled security, declared with a record date of 29 June 2007 and paid on 31 August 2007 | – | 10,150 |
|--|---|--------|

| | | |
|--|--------|---|
| Interim distribution of 2.5 cents per fully paid stapled security paid on 15 November 2007 | 17,574 | – |
| Interim distribution of 2.5 cents per fully paid stapled security paid on 15 February 2008 | 17,651 | – |
| Interim distribution of 2.5 cents per fully paid stapled security paid on 15 May 2008 | 17,628 | – |
| Final distribution for the year ended 30 June 2008 of 1.5 cents per fully paid stapled security, declared with a record date of 24 June 2008 and payable on 29 August 2008 | 10,555 | – |
| | 63,408 | – |

(1) Applied to subscribe for shares in Cromwell Corporation Limited on behalf of unitholders.

(2) These distributions are included in unitholders' finance costs in the income statement. This treatment is due to the limited life of the Trust up to 1 June 2007.

(3) This distribution is recognised in the consolidated statement of changes in equity due to the amendment of the Trust's constitution on 1 June 2007.

(4) All distributions from the Trust are unfranked.

The determination of the Trust's distributable income excludes unrealised gains including fair value increments to investment properties.

Dividends/distributions paid in cash, payable at balance date or satisfied by the issue of securities under the reinvestment plan during the years ended 30 June 2008 and 2007 were as follows:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Paid in cash ⁽¹⁾ | 58,140 | 24,232 | 5,590 | 6,994 |
| Satisfied by issue of securities ⁽²⁾ | 10,453 | 3,690 | - | - |
| Payable at balance date | 17,583 | 15,740 | 7,028 | 5,590 |
| | <u>86,176</u> | <u>43,662</u> | <u>12,618</u> | <u>12,584</u> |

(1) Excludes distributions paid at stapling in 2007.

(2) Recognised, in part, by both the Company and the Trust.

| | Consolidated | |
|--|--------------|------|
| | 2008 | 2007 |

32. Earnings per Share

| | | |
|---|-------------------------|-------------------------|
| Basic earnings per share | 2.77¢ | 1.24¢ |
| Diluted earnings per share | <u>2.77¢</u> | <u>1.24¢</u> |
| | \$'000 | \$'000 |
| Earnings used to calculate basic and diluted earnings per share | | |
| Profit for the year | 119,901 | 15,692 |
| Profit attributable to minority interests | (100,461) | (7,072) |
| Profit attributable to ordinary equity holders of the company used in calculating basic/diluted earnings per share | <u>19,440</u> | <u>8,620</u> |
| | Number of Shares | Number of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 702,988,443 | 694,363,728 |
| Effect of dilutive securities: | | |
| Director and employee share options | <u>180,150</u> | <u>682,365</u> |
| Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share | <u>703,168,593</u> | <u>695,046,093</u> |

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 per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 42.

The weighted average number of ordinary shares used in calculating basic and diluted earnings per share for the prior year includes adjustments for the pre-stapling reconstruction and stapling issue of 556,969,129 ordinary shares as these transactions were not associated with a corresponding change in resources.

Notes to the Financial Statements continued

33. Business Combination / Stapling

(a) Summary of Acquisition

On 19 December 2006 the Company, under the provisions of a Stapling Deed, stapled all its issued ordinary shares with the issued units of the Trust to form the Cromwell Group. Prior to the stapling, between 13 December 2006 and 15 December 2006, the Trust merged with five other Cromwell managed investment schemes collectively referred to as the Syndicates. These Syndicates were Cromwell Mary Street Planned Investment, Terrace Office Park Planned Investment, Cromwell Planned Investment No. 3, Cromwell Northbourne Planned Investment and Cromwell Goulburn Street Planned Investment. Each of these Syndicates also had an associated trust, which also participated in the Merger.

On 19 December 2006 each Company share was consolidated into 0.8879 restructured shares. A stapling dividend of \$0.001 was paid to each shareholder for each restructured share held. The Company, on behalf of each shareholder, applied the stapling dividend to subscribe for one unit in the Trust for \$0.001 each. On receipt of the subscription amount, Cromwell Property Securities Limited ("CPS"), a 100% owned subsidiary of the Company and the Responsible Entity of the Trust, issued to each shareholder one unit in the Trust for each restructured share held. In addition, on 19 December 2006, the Trust paid a stapling distribution to each unitholder of the Trust of \$0.00025 per unit. CPS, on behalf of the unitholders of the Trust, applied the stapling distribution to subscribe for one restructured share in the Company for \$0.00025 each. On receipt of the subscription amount, the Company issued to each unitholder one share in the Company for each unit held.

The provisions of the Stapling Deed, the Company Replacement Constitution and amended Trust Constitution together took effect from 19 December 2006 and by operation of these documents each restructured share became stapled to one Trust unit.

For relevant stapling arrangements Australian Accounting Standards require an acquirer to be identified and the general principles in AASB 3 Business Combinations to be applied. In relation to the stapling of the Company and the Trust, the Company has been identified as the acquirer. The following additional accounting principles have also been applied:

- (i) no goodwill has been recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;
- (ii) the equity issued by the Company to the Trust unitholders to give effect to the transaction is recognised at the dollar value of the consideration paid by the Trust 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. The consideration paid by the Trust unitholders was a nominal amount of \$139,242. The issue of units by the Trust to the Company shareholders was treated similarly; and
- (iii) the issued units of the Trust are not owned by the Company. As the Trust was a limited life trust its issued units were treated as a liability rather than equity until amendment of the Trust constitution on 1 June 2007 and were presented as net assets attributable to unitholders in the balance sheet. Following the amendment to the Trust's constitution the net assets of the Trust are now identified as minority interests and presented as such in the consolidated balance sheet within equity.

The Trust contributed revenue and other income of \$150,375,000 and profit before unitholders' finance costs of \$107,199,000 to the Group for the period from 19 December 2006 to 30 June 2007. It also contributed net profit of \$7,072,000 to the Group for the same period. If the acquisition had occurred on 1 July 2006, consolidated revenue and other income and consolidated profit before unitholders' finance costs for the year ended 30 June 2007 would have been \$290,537,000 and \$201,415,000 respectively. The net profit would not have changed given the limited life nature of the Trust resulted in it recording no net profit (as the 'profits' are reflected in unitholders' finance costs while the issued units are treated as a liability).

(b) Assets and Liabilities Acquired

The assets and liabilities arising from the acquisition of the Trust at the date of stapling were as follows:

| | Acquiree's Carrying Amount | Fair Value |
|---|----------------------------------|---------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 11,761 | 11,761 |
| Trade and other receivables | 3,646 | 3,646 |
| Other financial assets | 110 | 110 |
| Derivative financial assets | 12,439 | 12,439 |
| Other assets | 921 | 921 |
| Property, plant and equipment | 24,163 | 24,163 |
| Investment properties | 1,388,280 | 1,388,280 |
| Investment in jointly controlled entity | 52,211 | 52,211 |
| Deposits and preliminary costs | 2,273 | 2,273 |
| Lease receivable | 8,400 | 8,400 |
| Trade and other payables | (23,690) | (23,690) |
| Other liabilities | (4,957) | (4,957) |
| Borrowings | (891,587) | (891,587) |
| Net assets attributable to unitholders ⁽¹⁾ | (583,970) | (583,970) |
| Net assets | - | - |

(1) At the date of stapling the Trust had a limited life. Accordingly, under AASB 132 unitholders' interests were treated as a liability.

(c) Inflow/Outflow of Cash

| | Consolidated | Parent |
|--|--------------|--------|
| | \$'000 | \$'000 |
| Inflow/outflow of cash on acquisition, net of cash acquired: | | |
| Payment by the Company for 139,083,632 units in the Trust | (139) | (139) |
| Payment by the Trust for 556,969,129 shares in the Company | 139 | 139 |
| Cash balances acquired | 11,761 | - |
| Net cash inflow | 11,761 | - |

34. Subsidiaries Deconsolidated/Disposed

Cromwell Property Fund ("CPF")

CPF was a subsidiary of the Trust at the date of stapling. A Product Disclosure Statement (PDS) was issued by CPF prior to the date of stapling to raise capital from external investors. These funds were used to purchase additional investment properties and repay short term loans associated with the purchase of investment properties. External investors have subscribed for units in CPF via the PDS, diluting the Trust's ownership interest. At 30 June 2007 the Trust's ownership interest in CPF was 22%.

Notes to the Financial Statements continued

As a result of the above the Trust lost control of CPF on 12 February 2007 at which time the following net assets of CPF were deconsolidated from the Group:

| | \$'000 |
|--|----------------|
| Cash and cash equivalents | 6,060 |
| Trade and other receivables | 859 |
| Other assets | 607 |
| Derivative financial instruments | 3,358 |
| Investment properties | 350,985 |
| Trade and other payables | (4,472) |
| Other current liabilities – unearned revenue | (1,236) |
| Other liabilities – CFUs | (61,250) |
| Borrowings – financial institutions/other lenders | (278,822) |
| Net assets attributable to unitholders – the Trust | (7,921) |
| Net assets attributable to external unitholders | (8,168) |
| Net assets deconsolidated | <u>-</u> |
| Outflow of cash on deconsolidation | |
| Cash received on deconsolidation | - |
| Less: cash balances deconsolidated | (6,060) |
| Net cash outflow | <u>(6,060)</u> |

Since deconsolidation, the Group has accounted for CPF using the equity method of accounting – refer note 16.

Cromwell Accumulation Fund (“CAF”)

The CAF was formed on 10 November 2006. The CAF issued 700 units at \$1 each. All units were acquired by the Trust. During the year the CAF acquired land at Lenore Lane, Erskine Park, NSW and investment property at Percival Road, Smithfield, NSW. The land at Erskine Park was classified as property under construction and development.

On 14 June 2007 the Trust effectively disposed of the units in CAF to CPF at cost of \$700. The net assets disposed of are as follows:

| | \$'000 |
|---|-------------|
| Cash and cash equivalents | 23 |
| Trade and other receivables | 5 |
| Other assets | 304 |
| Investment properties | 23,968 |
| Property, plant and equipment (property under construction and development) | 24,497 |
| Trade and other payables | (663) |
| Other current liabilities – unearned revenue | (150) |
| Borrowings – financial institutions | (34,412) |
| Borrowings – from the Trust | (13,572) |
| Net assets disposed | <u>-</u> |
| Outflow of cash on disposal, net of cash disposed | |
| Cash consideration received | 1 |
| Less: cash balances disposed | (23) |
| Net cash outflow | <u>(22)</u> |

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

35. Cashflow Information

(a) Reconciliation of Profit for the Year to Net Cash Provided by Operating Activities

| | | | | |
|--|----------|----------|--------|---------|
| Profit for the year | 119,901 | 15,692 | 18,386 | 6,362 |
| Tax expense/(credit) | 3,342 | (723) | 1,008 | (1,273) |
| Tax paid | (868) | (956) | (868) | (956) |
| Reimbursements received from tax consolidated entities | - | - | 661 | 1,106 |
| Finance costs – unitholders | - | 98,265 | - | - |
| Amortisation and depreciation | 470 | 414 | - | - |
| Amortisation (loan establishment costs) | 890 | 1,089 | - | - |
| Share of profits of jointly controlled entity/associate (net of distributions) | (3,522) | 228 | - | - |
| Gain on sale of investment properties | (7,470) | (4,963) | - | - |
| Share based payments | 73 | 282 | 73 | 282 |
| Net gain on fair value adjustments of: | | | | |
| Investment properties | (34,649) | (69,779) | - | - |
| Interest rate derivatives | (4,479) | (4,610) | - | - |
| Gain on dilution of interest in associate | (826) | (6,341) | - | - |
| Decrease to recoverable amount: | | | | |
| Available-for-sale financial assets | 9,011 | - | - | - |
| Property development inventories | 1,200 | - | - | - |
| Straight-line rentals | (735) | - | - | - |
| Other | 25 | 286 | - | - |
| Changes in operating assets and liabilities*: | | | | |
| (Increase)/decrease: | | | | |
| - Trade and other debtors | 5,555 | (6,449) | 1,066 | 153 |
| - Prepayments | (919) | (799) | - | 124 |
| - Inventories | 6,783 | (1,965) | 1,140 | - |
| Increase/(decrease): | | | | |
| - Trade and other payables | (8,190) | 7,483 | 1,018 | (479) |
| - Provisions | 295 | 172 | - | - |
| - Unearned revenue | (548) | 288 | - | - |
| Net cash provided by operating activities | 85,339 | 27,614 | 22,484 | 5,319 |

* Net of effects of acquisition/disposal of subsidiaries.

(b) Non-Cash Activities

| | | | | |
|---|--------|-------|-----|----|
| - Securities issued on reinvestment of distributions ⁽¹⁾ | 10,453 | 3,690 | 301 | 60 |
| - Securities issued as payment to advisor ⁽¹⁾ | - | 500 | - | 8 |
| - Acquisition of plant and equipment by means of finance lease | - | 2 | - | - |

(1) Recognised in part by both the Company and the Trust (the Trust's share is included in minority interest while the Company's share is included in share capital).

In addition to the above notes 33 and 34 detail other 2007 non-cash acquisitions and disposals.

(c) Finance Facilities

Refer to note 23 for information on finance facilities.

Notes to the Financial Statements continued

(d) Cash held by Cromwell Property Securities Limited ("CPSL")

At 30 June 2008 cash was held by CPSL, a controlled entity, of \$2,432,000 (2007: \$3,306,000). Of this amount, approximately \$500,000 (2007: \$500,000) was held as part of the net tangible assets (NTA) required to be maintained by CPSL under its 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. Other assets are also required to be maintained to meet CPSL's minimum NTA requirements.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

36. Key Management Personnel Disclosures

(a) Key Management Personnel Compensation

| | | | | |
|------------------------------|-----------|-----------|-----------|-----------|
| Short-term employee benefits | 3,251,081 | 3,284,660 | 1,661,780 | 1,886,450 |
| Post-employment benefits | 309,440 | 142,068 | 210,468 | 61,503 |
| Other long-term benefits | 44,504 | 11,708 | 18,461 | 2,777 |
| Share-based payments | 61,111 | 205,474 | 18,559 | 4,441 |
| Total | 3,666,136 | 3,643,910 | 1,909,268 | 1,955,171 |

Key management personnel compensation for the parent comprises amounts paid to directors of the parent principally by subsidiaries.

(b) Equity Instrument Disclosures Relating to Key Management Personnel

Option holdings

The numbers of options over ordinary 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.

| 2008 Name | Balance at 1 July | Granted during the year as compensation | Exercised during the year | Other changes | Balance at 30 June | |
|--|----------------------|---|------------------------------|------------------|-----------------------|------------|
| | | | | | Vested | Not Vested |
| Directors | | | | | | |
| GH Levy | - | - | - | - | - | - |
| PL Weightman | - | 1,108,100 | - | - | - | 1,108,100 |
| RJ Pullar | - | - | - | - | - | - |
| MA McKellar | - | - | - | - | - | - |
| DE Usasz | - | - | - | - | - | - |
| DJ Wilson | - | 516,300 | - | - | - | 516,300 |
| WR Foster | - | - | - | - | - | - |
| Other key management personnel of the Group | | | | | | |
| SM Morgan | - | 229,200 | - | - | - | 229,200 |
| PA Cronan | - | 282,300 | - | (282,300) | - | - |
| PW Howard | - | - | - | - | - | - |
| DA Gippel | - | 792,000 | - | - | - | 792,000 |
| MC McLaughlin | - | 394,400 | - | - | - | 394,400 |
| MJ Blake | - | 507,000 | - | - | - | 507,000 |
| PJ McDonnell | - | 300,200 | - | - | - | 300,200 |
| PJ Cowling | 887,900 | 341,700 | (636,950) | - | 250,950 | 341,700 |

At 30 June 2008, options entitle the holder to acquire stapled securities in the Group – refer note 42.

| 2007 | Balance at 1 July | Granted during the year as compensation | Exercised during the year | Restructured on stapling | Balance at 30 June | |
|--|-------------------|---|---------------------------|--------------------------|--------------------|------------|
| Name | | | | | Vested | Not Vested |
| Directors | | | | | | |
| PL Weightman | - | - | - | - | - | - |
| RL Stiles ⁽¹⁾ | - | - | - | - | - | - |
| RJ Pullar | - | - | - | - | - | - |
| MA McKellar | - | - | - | - | - | - |
| DE Usasz | - | - | - | - | - | - |
| DJ Wilson | 500,000 | - | (500,000) | - | - | - |
| WR Foster | - | - | - | - | - | - |
| Other key management personnel of the Group | | | | | | |
| SM Morgan | - | - | - | - | - | - |
| PA Cronan | - | - | - | - | - | - |
| DA Gippel | - | - | - | - | - | - |
| MC McLaughlin | 375,000 | - | (375,000) | - | - | - |
| MJ Blake | 750,000 | - | (750,000) | - | - | - |
| PJ McDonnell | - | - | - | - | - | - |
| PJ Cowling | 2,000,000 | - | (1,000,000) | (112,100) | 887,900 | - |

(1) Resigned as director 26 April 2007; retired 30 June 2007.

At 30 June 2007, options entitle the holder to acquire stapled securities in the Group – refer note 42.

Vested options are exercisable.

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

| 2008 | Balance at 1 July | On exercise of options | Net changes – purchases (sales) | Balance at 30 June |
|--|-------------------|------------------------|---------------------------------|--------------------|
| Name | | | | |
| Directors | | | | |
| GH Levy * | - | - | - | - |
| PL Weightman | 15,364,167 | - | 100,000 | 15,464,167 |
| RJ Pullar | 13,545,269 | - | 454,731 | 14,000,000 |
| MA McKellar | 20,000 | - | 100,000 | 120,000 |
| DE Usasz | 1,490,400 | - | 57,202 | 1,547,602 |
| DJ Wilson | 2,205,982 | - | 9,024 | 2,215,006 |
| WR Foster | 5,349,598 | - | - | 5,349,598 |
| Other key management personnel of the Group | | | | |
| SM Morgan | - | - | - | - |
| PA Cronan | - | - | - | - |
| PW Howard | - | - | - | - |
| DA Gippel | 547,264 | - | - | 547,264 |
| MC McLaughlin | 457,140 | - | 10,011 | 467,151 |
| MJ Blake | 1,966,712 | - | 8,900 | 1,975,612 |
| PJ McDonnell | - | - | - | - |
| PJ Cowling | 1,331,850 | 636,950 | - | 1,968,800 |

* Mr GH Levy is a director of MZL Investments Pty Ltd, which is the manager of the MZL Opportunity Fund, which owns 462,963 stapled securities in the Cromwell Group. Mr GH Levy has no beneficial ownership of the shares.

Notes to the Financial Statements continued

| 2007 Name | Balance at 1 July | On exercise of options | Net changes – purchases (sales) | Restructured on stapling | Net changes – purchases (sales) | Balance at 30 June |
|--|-------------------|------------------------|---------------------------------|--------------------------|---------------------------------|--------------------|
| Directors | | | | | | |
| PL Weightman | 16,233,997 | – | – | (1,819,830) | 950,000 | 15,364,167 |
| RL Stiles (1) | 5,141,362 | – | (135,000) | (561,211) | (14,102) | 4,431,049 |
| RJ Pullar | 13,301,764 | – | – | (1,491,127) | 1,734,632 | 13,545,269 |
| MA McKellar (2) | – | – | – | – | 20,000 | 20,000 |
| DE Usasz (2) | 1,660,000 | – | – | (186,086) | 16,486 | 1,490,400 |
| DJ Wilson | 1,663,328 | 500,000 | – | (242,508) | 285,162 | 2,205,982 |
| WR Foster | 6,025,000 | – | – | (675,402) | – | 5,349,598 |
| Other key management personnel of the Group | | | | | | |
| PA Cronan | – | – | – | – | – | – |
| SM Morgan | – | – | – | – | – | – |
| DA Gippel | 616,357 | – | – | (69,093) | – | 547,264 |
| MC McLaughlin | 125,000 | 375,000 | – | (56,049) | 13,189 | 457,140 |
| MJ Blake | 1,239,764 | 750,000 | – | (223,052) | 200,000 | 1,966,712 |
| PJ McDonnell | 20,000 | – | (20,000) | – | – | – |
| PJ Cowling | 500,000 | 1,000,000 | – | (168,150) | – | 1,331,850 |

(1) Resigned as director 26 April 2007; retired 30 June 2007.

(2) Balance at 1 July is balance at date of appointment.

There were no shares granted during 2008 or 2007 as compensation.

At 30 June 2008 the balances above for the directors and other key management personnel represent the number of stapled securities of the Group held by them.

Property preference share holdings

The numbers of property preference 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.

| | Balance at 30 June 2006 | Net Change Other | Balance at 30 June 2007 | Net Change Other | Balance 30 June 2008 |
|--|-------------------------|------------------|-------------------------|------------------|----------------------|
| Directors | | | | | |
| GH Levy | – | – | – | – | – |
| PL Weightman | 3,500 | – | 3,500 | (3,500) | – |
| RL Stiles (1) | 2,500 | – | 2,500 | (2,500) | – |
| RJ Pullar | 1,000 | – | 1,000 | (1,000) | – |
| MA McKellar | – | – | – | – | – |
| DE Usasz | – | – | – | – | – |
| DJ Wilson | 2,000 | – | 2,000 | (2,000) | – |
| WR Foster | – | – | – | – | – |
| Other key management personnel of the Group | | | | | |
| SM Morgan | – | – | – | – | – |
| PA Cronan | – | – | – | – | – |
| PW Howard | – | – | – | – | – |
| DA Gippel | 2,000 | – | 2,000 | (2,000) | – |
| MC McLaughlin | – | – | – | – | – |
| MJ Blake | – | – | – | – | – |
| PJ McDonnell | – | – | – | – | – |
| PJ Cowling | – | – | – | – | – |

(1) Resigned as director 26 April 2007; retired 30 June 2007.

All property preference shares were redeemed by the Company during 2008.

(c) Loans – Key Management Personnel

In March 2006 the Group provided Citimark Pty Ltd, a company associated with Robert Pullar (a director of Cromwell Corporation Limited), a \$3,500,000 loan facility to fund the refurbishment of the former Brisbane Magistrates Court building at 179 North Quay. The loan was secured by a registered second mortgage over the development property. Interest was charged at 15% fixed per annum and capitalised up to \$515,000, thereafter payable monthly in arrears. The loan was repaid on 6 December 2006. Total interest received in 2007 was \$238,000.

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

(d) Other Transactions with Key Management Personnel

The Trust has entered into a development agreement with Citimark Properties Limited ("Citimark"), a company related to Mr. Robert Pullar, who is a director of the Company. Under the agreement, Citimark will develop a commercial office building in Kelvin Grove, Brisbane in accordance with specified terms, and to agreed standards. The land was acquired by the Trust for \$7,100,000 in June 2007, and construction is underway (included in property under construction – refer note 19). Under the development agreement, the Trust will reimburse Citimark for the costs of the project, and pay certain fees contingent upon the outcomes of certain events, primarily total construction costs of the property and leasing outcomes. Citimark has provided a rental guarantee to the Trust over the entire property for 18 months from the date construction is complete. The total budgeted construction costs for the project are \$82,069,000. During 2008 the Trust paid \$31,303,340 (2007: \$nil) to Citimark for development costs.

The Company 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 2008 was \$88,400 (2007: \$nil). The payment of rent is on normal commercial terms and conditions and at market rates.

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

37. Auditor's Remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Group (Johnston Rorke) and its related practices:

Audit Services

Johnston Rorke

| | | | | |
|---|---------|---------|--------|--------|
| Audit and review of financial reports under the Corporations Act 2001 | 332,000 | 261,000 | 67,500 | 70,000 |
| Audit of a controlled entity's AFS licence | 5,000 | 4,000 | – | – |
| Audit of controlled entities' compliance plans | 23,000 | 40,000 | – | – |
| Total remuneration for audit services | 360,000 | 305,000 | 67,500 | 70,000 |

Other Services

Related practice of Johnston Rorke

| | | | | |
|---|---|---------|---|---------|
| Investigating accountant's report for merger and stapling | – | 200,000 | – | 200,000 |
|---|---|---------|---|---------|

Johnston Rorke

| | | | | |
|---------------------------------------|--------|---------|--------|---------|
| Tax compliance services | 48,350 | 17,620 | 23,740 | 11,180 |
| Other | 9,100 | – | – | – |
| Total remuneration for other services | 57,450 | 217,620 | 23,740 | 211,180 |

The auditor receives remuneration for audit and other services relating to other entities (schemes) 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 \$85,000 (2007: \$42,500).

Notes to the Financial Statements continued

38. Related Parties

Parent Entity and Subsidiaries

Cromwell Corporation Limited is the ultimate parent entity in the Group. Details of subsidiaries are set out in note 17.

Key Management Personnel

Disclosures relating to key management personnel are set out in note 36.

| | Parent | |
|---|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 |
| Transactions with Subsidiaries | | |
| Current tax payable assumed from wholly-owned tax consolidated entities | 1,655 | 660 |
| Tax losses assumed from wholly-owned tax consolidated entities | - | - |

Transactions between the parent and its subsidiaries also included:

- Loans between the parent and its subsidiaries (refer cash flow statement and note 8). All loans are interest free (except as set out in note 8), unsecured, with no set repayment terms other than being repayable at call in cash. The parent received \$805,130 (2007: \$nil) in interest payments during the year from the loan to Cromwell PacLib Nominees Pty Ltd;
- Performance bonus fees paid to the parent by the Trust of \$2,979,612 (2007: \$nil);
- Management fees paid by the parent entity to a controlled entity (refer income statement);
- Dividends paid to the parent entity by a controlled entity of \$2,000,000 (2007: \$nil); and
- Transactions between Cromwell Corporation Limited and its wholly-owned controlled entities in accordance with the tax funding agreement (refer note 1(d) – being recognition of receivables and payables in relation to current tax payable and tax losses assumed as disclosed above).

In addition to the above, certain subsidiaries utilise operating leased assets for which the parent is the lessee. As such the subsidiaries pay the lease rentals directly to the lessor and recognise the associated lease rental expense.

Transactions with Jointly Controlled Entity and Associate

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

- Loans between the Group and its associate (refer note 8);
- The Group held 61,250,000 convertible financing units issued by its associate (refer note 18). The Group received \$3,229,293 (2007: \$1,737,000) in interest payments during the year on these units;
- The Group received \$6,835,000 (2007: \$2,646,000) in distributions from its jointly controlled entity and associate during the year (refer note 16);
- The Group charged its associate \$9,901,746 (2007: \$4,020,000) acquisition, capital raising, finance structuring, registry services and accounting services fees during the year, of which the parent charged \$5,992,543 (2007: \$2,321,000); and
- The Group charged its jointly controlled entity and associate \$3,828,121 (2007: \$1,118,000) management fees during the year.

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. The disclosure below includes the fees and other transactions with the managed investment schemes up to the date of stapling (in December 2006) as after that date the majority of the relevant schemes became part of the Group. For those schemes which are not part of the Group after that date, TGA and CPF (refer note 16), fees and transactions after stapling are disclosed above as being transactions with jointly controlled entity and associate.

(a) Cromwell Diversified Property Trust ("CDPT")

During the 2007 financial year the Group charged CDPT the following fees and received the following distributions:

| | 2007 \$'000 |
|--|----------------|
| Revenue from CDPT: | |
| – Acquisition and capital raising fees | 2,149 |
| – Management fees | 3,386 |
| | <hr/> |
| | 5,535 |
| – Distributions | 12 |
| | <hr/> |
| | 5,547 |

During the 2007 financial year the following loans were provided to CDPT and repaid:

| | |
|---|---------|
| Balance at beginning of the year | – |
| Loans provided to CDPT | 6,000 |
| Loans repaid by CDPT | – |
| Consolidation adjustment upon stapling ⁽¹⁾ | (6,000) |
| Balance at end of year | <hr/> |
| | – |

(1) The loan balance of \$6,000,000 was included in borrowings of CDPT (the Trust) assumed by the Group upon stapling and, as such, is eliminated on consolidation.

(b) Other Managed Investment Schemes

During the 2007 financial year the Group charged other schemes (excluding CDPT), for which it acts as responsible entity, the following fees and received the following distributions:

| | |
|---|-------|
| Revenue: | |
| – Acquisition and capital raising fees (Cromwell Property Fund) | 1,886 |
| – Management fees | 1,802 |
| – Distributions | |
| – Mary Street Planned Investment | 65 |
| – Cromwell TGA Planned Investment | – |
| | <hr/> |
| | 3,753 |

Other managed investment schemes include Cromwell Property Fund and Cromwell TGA Planned Investment (refer note 16).

Acquisition and capital raising fees charged to managed investment schemes are shared between the parent entity and a controlled entity.

Notes to the Financial Statements continued

39. Segment Information

(a) Description of Segments

Business segments

The Group is organised into the following divisions by product and service type.

Property Investment

The Trust and its controlled entities invest directly in properties located throughout Australia.

Property Funds Management

The Company and its controlled entities establish and manage property trusts and funds throughout Australia.

Property Development

The Company and its controlled entities develop commercial land throughout Australia for sale to external purchasers.

Geographical segments

The Group operates entirely within Australia.

(b) Primary Reporting Format – Business Segments

| 2008 | Property Investment | Property Funds Management | Property Development | Consolidated |
|--|---------------------|---------------------------|----------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Segment revenue and other income | | | | |
| Sales to external customers | 89,658 | 14,747 | 38,000 | 142,405 |
| Intersegment sales | 676 | 12,176 | – | 12,852 |
| Total sales revenue | 90,334 | 26,923 | 38,000 | 155,257 |
| Share of profits of equity accounted entities | 10,357 | – | – | 10,357 |
| Gain on dilution of interest in associate | 826 | – | – | 826 |
| Gain on sale of investment property | 7,470 | – | – | 7,470 |
| Gain on fair value adjustments | 39,128 | – | – | 39,128 |
| Total segment revenue and other income | 148,115 | 26,923 | 38,000 | 213,038 |
| Intersegment elimination | | | | (12,852) |
| Unallocated revenue | | | | 11,985 |
| Consolidated revenue and other income | | | | 212,171 |
| Segment result | | | | |
| Segment result | 109,359 | 15,469 | 21,898 | 146,726 |
| Intersegment elimination | | | | (19) |
| Unallocated revenue less unallocated expenses | | | | 8,351 |
| Finance costs (excluding unitholders) | | | | (31,815) |
| Profit before income tax | | | | 123,243 |
| Income tax expense | | | | (3,342) |
| Profit for the year | | | | 119,901 |
| Segment assets and liabilities | | | | |
| Segment assets | 1,321,341 | 13,842 | 4,047 | 1,339,230 |
| Intersegment elimination | | | | (1,069) |
| Unallocated assets | | | | 30,362 |
| Total assets | | | | 1,368,523 |
| Segment liabilities | 19,172 | 8,887 | 645 | 28,704 |
| Intersegment elimination | | | | (1,061) |
| Borrowings ⁽¹⁾ | | | | 623,448 |
| Unallocated liabilities | | | | 2,196 |
| Total liabilities | | | | 653,287 |
| Other segment information | | | | |
| Investments in jointly controlled entity and associate | 80,593 | – | – | 80,593 |
| Acquisitions of non-current segment assets | | | | |
| – Investment properties | 182,499 | – | – | 182,499 |
| – Property, plant and equipment | 33,648 | 453 | – | 34,101 |
| – Intangibles | – | 263 | – | 263 |
| | 216,147 | 716 | – | 216,863 |
| Depreciation and amortisation expense | – | 470 | – | 470 |

(1) In accordance with AASB 114 Segment Reporting, borrowings have not been allocated but predominantly relate to the property investment segment.

Notes to the Financial Statements continued

(b) Primary Reporting Format – Business Segments (continued)

| 2007 | Property Investment | Property Funds Management | Property Development | Consolidated |
|---|------------------------|------------------------------|-------------------------|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Segment revenue and other income | | | | |
| Sales to external customers | 60,363 | 14,701 | 10,400 | 85,464 |
| Intersegment sales | 162 | 4,982 | – | 5,144 |
| Total sales revenue | 60,525 | 19,683 | 10,400 | 90,608 |
| Share of profits of equity accounted entities | 2,418 | – | – | 2,418 |
| Gain on dilution of interest in associate | 6,341 | – | – | 6,341 |
| Gain on sale of investment property | 4,963 | – | – | 4,963 |
| Gain on fair value adjustments | 74,389 | – | – | 74,389 |
| Total segment revenue and other income | 148,636 | 19,683 | 10,400 | 178,719 |
| Intersegment elimination | | | | (5,144) |
| Unallocated revenue | | | | 2,871 |
| Consolidated revenue and other income | | | | 176,446 |
| Segment result | | | | |
| Segment result | 130,874 | 11,545 | 4,916 | 147,335 |
| Intersegment elimination | | | | (88) |
| Unallocated revenue less unallocated expenses | | | | (2,449) |
| Finance costs (excluding unitholders) | | | | (24,515) |
| Stapling transaction costs | | | | (7,049) |
| Profit before income tax and unitholders' finance costs | | | | 113,234 |
| Income tax credit | | | | 723 |
| Unitholders' finance costs | | | | (98,265) |
| Profit for the year | | | | 15,692 |
| Segment assets and liabilities | | | | |
| Segment assets | 1,203,680 | 13,949 | 12,293 | 1,229,922 |
| Intersegment elimination | | | | (1,023) |
| Unallocated assets | | | | 66,255 |
| Total assets | | | | 1,295,154 |
| Segment liabilities | | | | |
| Segment liabilities | 27,157 | 7,799 | 514 | 35,470 |
| Intersegment elimination | | | | (1,228) |
| Borrowings ⁽¹⁾ | | | | 586,966 |
| Unallocated liabilities | | | | 882 |
| Total liabilities | | | | 622,090 |
| Other segment information | | | | |
| Investments in jointly controlled entity and associate | 66,245 | – | – | 66,245 |
| Acquisitions of non-current segment assets | | | | |
| – Investment properties | 25,305 | – | – | 25,305 |
| – Property, plant and equipment | 8,841 | 182 | – | 9,023 |
| – Intangibles | – | 230 | – | 230 |
| | 34,146 | 412 | – | 34,558 |
| Depreciation and amortisation expense | – | 414 | – | 414 |

(1) In accordance with AASB 114 Segment Reporting, borrowings have not been allocated but predominantly relate to the property investment segment.

The acquisitions of non-current segment assets shown above excludes the acquisition on stapling disclosed in note 33. The stapling acquisition related to the property investment segment.

(c) Notes to and Forming Part of the Segment Information

Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group as disclosed in note 1 and Accounting Standard AASB 114 *Segment Reporting*.

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. Segment assets and liabilities do not include income taxes.

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.

Equity-accounted investments

The Group has an investment in an Australian jointly controlled entity (Cromwell TGA Planned Investment) and an Australian associate (Cromwell Property Fund) which are accounted for using the equity method and included in the property investment segment.

| | Consolidated | | Parent | |
|--|--------------|--------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |

40. Commitments for Expenditure

Finance Leases

Commitments in relation to finance leases are payable as follows:

| | | | | |
|---|-----|------|---|---|
| Within one year | 60 | 82 | - | - |
| Later than one year but not later than five years | 20 | 81 | - | - |
| Minimum lease payments | 80 | 163 | - | - |
| Future finance charges | (4) | (11) | - | - |
| Recognised as a liability | 76 | 152 | - | - |
| Representing lease liabilities | | | | |
| Current | 56 | 75 | - | - |
| Non-current | 20 | 77 | - | - |
| | 76 | 152 | - | - |

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

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 | 60 | 29 | 20 | 95 |
| Later than one year but not later than five years | 63 | 37 | 471 | 50 |
| | 123 | 66 | 491 | 145 |

Operating leases primarily comprised the lease of the Group's premises. During 2008 the Group took up an option to lease the premises for a further 3 years, expiring August 2010, with an option for a further 3 years, with rentals increasing at 4% per annum. The lease is with a subsidiary of the Trust and as such the commitment is no longer recognised on consolidation following stapling. Operating lease commitments of the parent entity are paid for and recognised as expenses by a controlled entity as from 1 July 2004.

Notes to the Financial Statements continued

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |

Capital Expenditure Commitments

Commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities are payable as follows:

| | | | | |
|---|--------|--------|---|---|
| Within one year | 50,127 | 50,805 | - | - |
| Later than one year but not later than five years | - | 30,625 | - | - |
| | 50,127 | 81,430 | - | - |

41. Contingent Liabilities

Cromwell Corporation Limited has provided guarantees in respect of debentures issued by its controlled entities which had a carrying value of \$3,926,000 at 30 June 2008 (2007: \$14,504,000).

42. Share Based Payments

Employee Share Option Plan

An Employee Share Ownership Plan (ESOP) was established in June 2003 by the directors of the parent entity. All full-time and part-time employees who meet minimum service requirements, including directors of Cromwell Corporation Limited and its controlled entities, are eligible to participate in the Plan at the discretion of the Board. Participation of the directors is subject to shareholder approval. Usually, options granted under the ESOP vest in equal tranches annually between grant date and expiry date. Once vested each tranche must be exercised within a certain period. The options lapse if not exercised.

Under the ESOP interest is charged on a notional employee loan which effectively increases the exercise price. Dividends paid by the parent entity on the treasury shares held by the ESOP effectively reduces the options' exercise price.

The shares allocated to employees under the ESOP are to be transferred at the end of the respective period. If any of the shares have not been acquired by the end of each period, the right to acquire those shares will not be carried forward, but will automatically lapse. The right to acquire any additional shares will lapse on the date the employee ceases employment with the Group. The exercise price of options is to be settled in cash.

Options are granted for no consideration, vest over time and are exercisable by expiry.

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

Set out below are summaries of options granted and exercised.

| Grant Date | Expiry Date | Exercise price (cents) | Balance at start of the year | Granted during the year | Exercised during the year | Reconstructed during the year | Balance at year end |
|---|-------------|------------------------|------------------------------|-------------------------|---------------------------|-------------------------------|---------------------|
| 2008 | | | | | | | |
| 28/8/2005 | 30/6/2009 | 30.9¢ | 48,196 | – | (30,439) | – | 17,757 |
| 28/8/2005 | 30/9/2009 | 30.9¢ | 887,900 | – | (636,950) | – | 250,950 |
| | | | 936,096 | – | (667,389) | – | 268,707 |
| Weighted average exercise price (cents) | | | 34.8¢ | – | 34.8¢ | – | 34.8¢ |
| 2007 | | | | | | | |
| 27/11/2003 | 26/11/2006 | 10.0¢ | 500,000 | – | (500,000) | – | – |
| 28/8/2005 | 30/6/2009 | 30.9¢ | 1,438,750 | – | (1,371,640) | (18,914) | 48,196 |
| 28/8/2005 | 30/9/2009 | 30.9¢ | 2,000,000 | – | (1,000,000) | (112,100) | 887,900 |
| 31/10/2005 | 30/6/2009 | 40.0¢ | 375,000 | – | (375,000) | – | – |
| | | | 4,313,750 | – | (3,246,640) | – | 936,096 |
| Weighted average exercise price (cents) | | | 29.3¢ | – | 28.7¢ | – | 34.8¢ |

Notes:

- (1) At 30 June 2008 all options (2007: all) were vested and exercisable with a weighted average exercise price of 34.8 cents (2007: 34.8 cents). All options became vested and exercisable on approval of the stapling by shareholders and unitholders in December 2006.
- (2) The weighted average remaining contractual life of share options outstanding at the end of the year was 1.3 years (2007: 2.3 years).
- (3) No options were granted in 2008. The assessed fair value of options granted in 2006 was 10.1 cents for options exercisable at 30.9 cents and 7.1 cents for options exercisable at 40 cents.
- (4) 667,389 options were exercised on 30 June 2008 (2007: 3,145,000 options were exercised on 19 December 2006 (stapling date) and 101,640 options were exercised on 30 June 2007). 667,389 shares (2007: 3,246,640 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 \$234,000 (2007: \$749,000) for the Company and \$nil (2007: \$26,000) for the Trust. The fair value of securities issued at the option exercise date was \$521,000 (that is the weighted average share price at the date of exercise was \$0.78 per security) (2007 - \$3,602,000; \$1.11 per security).
- (5) As a result of the stapling transaction (refer note 33) 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.

To 30 June 2008 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.

Notes to the Financial Statements continued

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

| | Options Granted | |
|---|-----------------|----------|
| Exercise price (cents) | 30.9¢ | 40¢ |
| Grant date | 28/8/05 | 31/10/05 |
| Share price at grant date | 34¢ | 38¢ |
| Expected price volatility of the company's shares | 90% | 90% |
| Expected dividend yield | 3.66% | 3.66% |
| Risk free interest rate | 5.0% | 5.18% |
| Expiry date | 30/6-30/9/09 | 30/6/09 |

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.

No options were granted during the 2008 financial year under the ESOP.

Performance Rights Plan

A Performance Rights Plan (PRP) was established in September 2007 by the directors of the parent entity. 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 Nomination and Remuneration Committee and based on individual circumstances and performance.

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

Securities allocated under the PRP generally vest in 3 years. Until securities have vested, the participant cannot sell or otherwise deal with the securities except in certain limited circumstances. It is a condition of the PRP that a participant must remain employed by the Group in order for securities to vest. Any securities 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 performance rights granted and exercised.

| Grant Date | Expiry Date | Exercise price (cents) | Balance at start of the year | Granted during the year | Lapsed during the year | Exercised during the year | Balance at year end |
|---------------------------------|-------------|------------------------|------------------------------|-------------------------|------------------------|---------------------------|---------------------|
| 2008 | | | | | | | |
| 18/09/2007 | 19/01/2010 | \$1.21 | – | 492,900 | – | – | 492,900 |
| 18/09/2007 | 19/01/2011 | \$1.21 | – | 4,255,100 | (368,300) | – | 3,886,800 |
| 18/09/2007 | 19/01/2011 | \$0.00 | – | 8,600 | – | – | 8,600 |
| 06/12/2007 | 07/04/2011 | \$1.21 | – | 1,624,400 | – | – | 1,624,400 |
| | | | – | 6,381,000 | (368,300) | – | 6,012,700 |
| Weighted average exercise price | | | – | \$1.21 | – | – | \$1.21 |

Notes:

- (1) At 30 June 2008 no performance rights were vested and exercisable.
- (2) The weighted average remaining contractual life of performance rights outstanding at the end of the year was 2.7 years.
- (3) All performance rights were granted in 2008. The assessed fair value of performance rights granted was as follows:
 - 14.3 cents for performance rights with non-market based vesting conditions expiring on 19/01/2010
 - nil cents for all performance rights with market based vesting conditions expiring on 19/01/2010
 - 15.0 cents for performance rights with non-market based vesting conditions expiring on 19/01/2011
 - nil cents for performance rights with market based vesting conditions expiring on 19/01/2011
 - 96.9 cents for performance rights with \$nil exercise price
 - nil cents for performance rights with market based vesting conditions expiring on 07/04/2011

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 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 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 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 performance rights granted during the year ended 30 June 2008 included:

| Market based vesting conditions | Performance Rights Granted |
|---|----------------------------|
| Exercise price | \$1.21 |
| Grant date | 18/9/2007 – 6/12/2007 |
| Share price at grant date | \$1.25 |
| Expected price volatility of the company's shares | 23% |
| Expected dividend yield | 8.06% |
| Risk free interest rate | 6.22% |
| Expiry date | 19/1/2010 – 7/4/2011 |

| Non-market based vesting conditions | Performance Rights Granted | | | |
|---|----------------------------|-----------|-----------|-----------|
| Exercise price | \$1.21 | \$1.21 | – | \$1.21 |
| Grant date | 18/09/07 | 18/09/07 | 18/09/07 | 6/12/2007 |
| Share price at grant date | \$1.26 | \$1.26 | \$1.26 | \$1.25 |
| Expected price volatility of the company's shares | 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 | 19/1/2010 | 19/1/2011 | 19/1/2011 | 7/4/2011 |

Notes to the Financial Statements continued

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.

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.

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:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Options issued under employee share plan | 12 | 282 | 12 | 282 |
| Rights issued under performance rights plan | 61 | - | 61 | - |
| Tax exempt plan | 22 | - | - | - |
| | <u>95</u> | <u>282</u> | <u>73</u> | <u>282</u> |

As noted above the stapling transaction accelerated the vesting of options. Accordingly, the related remaining share option expense was also recognised in the 2007 year.

43. 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 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 credit worthiness;
- 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 property acquisition and property development strategies; and
- distributions to members are made within the stated distribution policy.

The Group is able to alter its capital mix by:

- issuing new stapled securities;
- activating its distribution reinvestment plan;
- adjusting the amount of 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 credit worthy insurers.

Cromwell Property Securities Limited ("CPS") holds an Australian Financial Services Licence (AFSL) and acts as responsible entity for the managed investment schemes 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 35). 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 2008 and 2007.

The Group and the Parent monitor 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 30 June 2008 and 2007 were as follows:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Total borrowings | 623,448 | 586,966 | - | 211 |
| Less: cash and cash equivalents and restricted cash | 33,983 | 17,966 | 705 | 35 |
| Net debt | 589,465 | 569,000 | (705) | 176 |
| Total assets | 1,368,523 | 1,295,154 | 29,771 | 14,484 |
| Less: cash and cash equivalents and restricted cash | 38,281 | 23,336 | 6,084 | 5,895 |
| Adjusted assets | 1,330,242 | 1,271,818 | 23,687 | 8,589 |
| Gearing ratio | 44% | 45% | N/A | 2% |

44. 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 swaps 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 board of directors who monitor the operating compliance and performance as required. The board provides principles 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.

Notes to the Financial Statements continued

The Group and the parent entity hold the following financial instruments:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Financial Assets | | | | |
| Cash and cash equivalents ⁽¹⁾ | 8,283 | 17,845 | 705 | 35 |
| Trade and other receivables ⁽¹⁾ | 48,473 | 24,342 | 22,937 | 6,699 |
| Derivative financial instruments ⁽²⁾ | 19,367 | 13,498 | – | – |
| Available-for-sale financial assets | 11,457 | – | 275 | 275 |
| Other financial assets ⁽¹⁾ | 25,700 | 61,371 | – | – |
| | <u>113,280</u> | <u>117,056</u> | <u>23,917</u> | <u>7,009</u> |
| Financial Liabilities | | | | |
| Trade and other payables ⁽³⁾ | 5,731 | 13,920 | 1,199 | 181 |
| Borrowings ⁽³⁾ | 623,448 | 586,966 | – | 211 |
| Dividends/Distributions payable ⁽³⁾ | 17,583 | 15,740 | 7,028 | 5,590 |
| | <u>646,762</u> | <u>616,626</u> | <u>8,227</u> | <u>5,982</u> |

(1) loans and receivables

(2) At fair value – held for trading

(3) At amortised cost

(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 and the Parent has exposure to credit risk on all financial assets included in their balance sheets except available-for-sale financial assets.

The Group and the Parent manage 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 controlled entities and associates where the Group and the Trust are comfortable with the underlying property exposure;
- regularly monitoring loans and receivables on an ongoing basis; and
- regularly monitoring the performance of controlled entities and associates on an ongoing basis.

The maximum exposure to credit risk as at 30 June 2008 is the carrying amounts of financial assets recognised in the balance sheets of the Group and the Trust. The Group and the Trust hold 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.

The ageing analysis of receivables past due at balance date is as follows:

| | Consolidated | | Parent | |
|---------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 1 to 3 months | 2,045 | 5,183 | - | - |
| 3 to 6 months | - | - | - | - |
| Over 6 months | 4,981 | 3,155 | - | - |
| | <u>7,026</u> | <u>8,338</u> | <u>-</u> | <u>-</u> |

The Group and Parent have no significant concentrations of credit risk except for the following:

- the Group has amounts owing from Cromwell Property Fund of \$40,052,000 (2007: \$73,222,000) (refer notes 8 and 18);
- the Parent has \$22,595,000 (2007: \$4,698,000) in loans to controlled entities (refer note 8); and
- other concentrations of credit risk relate to restricted cash which is held with Westpac Banking Corporation and derivative interest rate swaps which are held with the same financial institution.

(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.

Contractual maturity of financial liabilities, including interest thereon, is as follows:

| | Consolidated | | Parent | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Due within one year | 543,547 | 215,716 | 8,227 | 5,771 |
| Due between one and five years | 83,634 | 455,379 | - | 211 |
| Due after five years | 126,758 | - | - | - |
| | <u>753,939</u> | <u>671,095</u> | <u>8,227</u> | <u>5,982</u> |

Notes to the Financial Statements continued

(c) Market risk

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. Neither the Group nor the Parent are 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 30 June 2008, had the ASX All Ordinaries index increased/decreased by 10% 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 \$1,146,000 higher/lower. The Group had no exposure to price risk on equity securities in 2007.

Parent sensitivity

The Parent had no exposure to price risk on equity securities in 2008 or 2007.

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, 73% (2007: 54%) of the Group's borrowings were effectively hedged.

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

The fixed interest rates range between 5.30% and 6.69% (2007: 4.70% and 5.90%) and the variable rates are at the 30 day bank bill swap bid rate which at balance date was 7.66% (2007: 6.40%). At 30 June 2008, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

| | Consolidated | | Parent | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Less than 1 year | 246,015 | 5,820 | - | - |
| 1-2 years | 15,060 | 99,450 | - | - |
| 2-3 years | 76,745 | 15,060 | - | - |
| 3-4 years | - | 76,745 | - | - |
| 4-5 years | - | - | - | - |
| Greater than 5 years | 118,180 | 118,180 | - | - |
| | <u>456,000</u> | <u>315,255</u> | <u>-</u> | <u>-</u> |

The Group's interest rate swaps 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 income statement. Refer accounting policy at note 1(r).

The Group's fixed rate borrowings relate to fixed interest debentures issued by a subsidiary and which bear interest at 8% (2007: 8%) and are measured at amortised cost.

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 23.

Group sensitivity

At 30 June 2008, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit would have been \$9,933,000 higher/lower (2007 – change of 100 bps: \$7,121,000 higher/lower), mainly as a result of an increase/decrease in the fair value of interest rate swaps. Equity would have been \$9,933,000 higher/lower (2007: \$7,121,000 higher/lower) mainly as a result of an increase/decrease in the fair value of interest rate swaps.

Parent sensitivity

At 30 June 2008, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit would have been \$209,000 higher/lower (2007 – change of 100 bps: \$nil higher/lower), mainly as a result of an increase/decrease in interest income. Equity would have been \$209,000 higher/lower (2007: \$nil higher/lower) mainly as a result of an increase/decrease in interest income.

(d) 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 is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative interest rate swaps classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

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/payment at variable rates.

Notes to the Financial Statements continued

45. Subsequent Events

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

Progress towards refinancing of CMBS issue

The Group's major borrowings, a \$429,000,000 Commercial Mortgage Backed Security ("CMBS") issue is due for repayment in April 2009. Since balance date, offers have been received from 3 banks to provide a syndicated loan facility totalling \$452,000,000, which would enable the repayment of the CMBS issue in full.

The offers of finance have been approved by the banks credit committees, but are still subject to documentation and satisfaction of relevant pre-conditions before the funding is able to be drawn. The Directors expect that the facility will be finalised on satisfactory terms, and that it will be available to the Group prior to the scheduled repayment date of the CMBS issue.

The financial effects of subsequent events were not recognised as at 30 June 2008.

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 company's and consolidated entity's financial position as at 30 June 2008 and of their 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 company 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 2008 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 19th day of August 2008

Independent Auditor's Report



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Independent Auditor's Report to the Members of Cromwell Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Cromwell Corporation Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Cromwell Corporation Limited (the company) and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures 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.

Liability limited by a scheme approved under Professional Standards Legislation

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 Corporation Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their 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 directors' report for the year ended 30 June 2008. The directors of the company 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 2008, complies with Section 300A of the Corporations Act 2001.

JOHNSTON RORKE

Chartered Accountants



J J Evans

Partner

Brisbane, Queensland

19 August 2008

Corporate Governance Statement

The Cromwell Group through the various Boards and management is committed to meeting stakeholders' expectations of sound corporate governance, while seeking to achieve superior financial performance and long term prosperity. The Board is proactive with respect to corporate governance, and actively reviews developments to determine which corporate governance arrangements are appropriate for the Group and its stakeholders.

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 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 for departure.

Copies of the Group's corporate governance practices are available on its website at www.cromwell.com.au.

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.

Each director has received a letter of appointment which details the key terms of their appointment.

Day-to-day management of the Group's affairs and implementation of corporate strategy and policy initiatives are delegated by the Board to committees and management. This has been formalised in the Board Charter and a Delegations of Authority policy.

Cromwell Property Securities Limited acts as responsible entity for a number of managed investment schemes. A compliance committee comprised of a majority of external independent members monitors to what extent the responsible entity complies with each managed investment scheme's compliance plan and reports findings to the responsible entity.

A formal induction program allows senior executives to participate fully and actively in decision-making. 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 potential development of the executive is also discussed, along with any training which could enhance the objectives being achieved. Both qualitative and quantitative measures are used in the evaluation. A performance evaluation for the majority of key executives has taken place during the reporting period, and was subject to the review process explained in this report.

What you can find on our website:

- Corporate Governance Statement
- Board Charter

Principle 2 – Structure the board to add value

The Board is comprised of four non-executive independent directors and three executive directors. Therefore, a majority of the directors are independent. Profiles of each director, including details of their skills, expertise and experience can be found in the directors' report.

In line with the increased size and scale of the operations of the Group, Mr Geoff Levy was appointed as the non-executive Chairman of the Group in April 2008. Mr Paul Weightman remains as the Group's Chief Executive Officer.

Mr Levy was previously Executive Chairman of Investec Bank (Australia) Limited (Investec). Mr Levy continues to have a consulting role with Investec and is currently the non-executive Deputy Chairman of Investec.

Having regard to the materiality thresholds adopted by the Board, Investec is considered a material advisor to the Group having advised on the Group's major restructure completed in December 2006.

Despite the relationship between Cromwell Group and Investec, the Board considers Mr Levy to be an independent director. For the following reasons, the Board does not consider that Mr Levy's relationship with Investec is such that it does or may interfere with his exercise of independent judgement as a Board member:

- a) Mr Levy is not a substantial shareholder of Cromwell or an officer of, or otherwise associated directly with, a substantial shareholder of Cromwell;
- b) Mr Levy has never been employed in an executive capacity by any member of the Cromwell Group;
- c) Mr Levy does not have any material contractual relationships with any member of the Cromwell Group, other than as a director;
- d) Investec staff involved in advising Cromwell on transactions have done so within strict Chinese Wall arrangements designed to ensure information did not flow from the transaction team to other parts of Investec;
- e) as a consultant to Investec, Mr Levy does not consult on matters relating to Cromwell or any member of the Cromwell Group; and
- f) Investec does not currently provide finance to Cromwell or any member of the Cromwell Group.

The Group recognises that independent directors are important in assuring securityholders that the Board properly fulfill its role. The non-executive directors are considered to meet the test of independence under the ASX Guidelines. Each year, the independent directors are requested to confirm in writing their continuing status as an independent director, and that they have each undertaken to inform the Boards as soon as practical if they think that their status as an independent director has or may have changed.

For each director, their 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.

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

Independent professional advice

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

Corporate Governance Statement continued

Board Committees

Two 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 Nomination and Remuneration Committee, and the Audit and Risk Committee be comprised of independent directors. Each committee has a charter which includes a description of their duties and responsibilities.

Performance of the Board

The Board undertakes an annual formal performance self assessment, which includes an assessment of the Board, Board Committees and individual directors. All directors complete a questionnaire and are able to make comments or raise any issues they have regarding the Board or a Board Committee's operations. The results are compiled and discussed.

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 undertakes a process to identify 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.

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, designed to formally provide guidance in officer and employee attitudes and behaviour and to maintain confidence in the integrity of the Group.

The Code of Conduct is made available to all directors and employees. Standards are communicated and reinforced at induction programs and staff meetings.

Employees are encouraged to participate in appropriate training programs covering such areas as workplace health and safety, risk management, legal and compliance, privacy and confidentiality, trade practices legislation and corporate governance principles.

A policy on securities dealing is in place 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.

What you can find on our website:

- Code of Conduct
- Securities Trading 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 and financial reporting 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 which is available on the Group's website.

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 are 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. The Group has a communications policy which is available on our website. This policy includes policies and procedures in relation to disclosure and compliance with the disclosure requirements in the ASX Listing Rules.

It is the policy of the Group that any price-sensitive material for public announcement will be lodged with the ASX as soon as practical and before external disclosure elsewhere and posted on the Group's website as soon as practical after lodgement with the ASX.

The ASX liaison person is the Group's company secretary.

What you can find on our website:

- Communications Policy

Principle 6 – Respect the rights of shareholders

A communications policy has been developed and designed to not only comply with the ASX Guidelines but 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.

Corporate Governance Statement continued

Principle 7 – Recognise and manage risks

The Group is exposed to risks in the markets in which it operates. The Group has a formalised risk management policy, and compliance with the policy is monitored by the Audit and Risk Committee.

The 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.

The Group has in place limits and a range of policies and procedures to monitor risks, and these are reviewed by the Audit and Risk Committee. The Board receives regular reports from the Audit and Risk Committee.

The risk management framework includes policies, limits and procedures applying across the Group. 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.

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. This policy is available on our website.

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 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 provide the Board with written confirmation that:

1. their statement given to the Board on the integrity of the Group's statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
2. the Group's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

Senior management have reported to the Board on the effectiveness of the management of the material business risks faced by the Group for the year ending 30 June 2008. The Board has also received the declarations from the Chief Executive Officer and the Chief Financial Officer described above.

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 that makes recommendations to the Board:

- in the case of non-executive directors, for consideration of any increase by securityholders at the AGM; and
- 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' emoluments to the Group's financial and operational performance.

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

Nomination and Remuneration Committee

The Board has established a formally constituted 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.

The Nomination and Remuneration Committee was formally reconstructed as a Board subcommittee in July 2007.

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

Minutes of all committee meetings are provided to the Board, and it is intended that 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 its 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.

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 defined formula under the Constitutions for the schemes or agreements which have been assessed as being on arms length 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

The securityholder information set out below was applicable as at 29 August 2008.

Spread of stapled securityholders

| Category (size of Holding) | Number of Holders | Number of Securities |
|----------------------------|-------------------|----------------------|
| 1 – 1,000 | 399 | 180,264 |
| 1,001 – 5,000 | 630 | 1,936,386 |
| 5,001 – 10,000 | 845 | 6,804,970 |
| 10,001 – 100,000 | 7,129 | 233,003,754 |
| 100,001 and over | 1,073 | 461,159,560 |
| | 10,076 | 703,084,934 |

Unmarketable Parcels

The number of stapled securityholdings held in less than marketable parcels was 278.

Substantial Securityholders

| Holder | Stapled Securities | Date of Notice |
|------------------------------|--------------------|----------------|
| APN Funds Management Limited | 43,464,477 | 27 Feb-08 |

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 poll each security shall have one vote.

20 Largest Securityholders

| | Number of Stapled Securities Held | % Held of Issued Stapled Securities |
|---|-----------------------------------|-------------------------------------|
| RBC Dexia Investor Services Australia Nominees Pty Limited <APN A/C> | 48,064,477 | 6.84 |
| HSBC Custody Nominees (Australia) Limited | 29,394,869 | 4.18 |
| National Nominees Limited | 16,094,870 | 2.29 |
| AWJ Family Pty Ltd | 15,228,109 | 2.17 |
| ANZ Nominees Limited | 14,063,424 | 2.00 |
| RJP Family Pty Ltd | 14,000,000 | 1.99 |
| Stara Investments Pty Ltd | 13,780,433 | 1.96 |
| Trial Developments Pty Ltd | 8,068,409 | 1.15 |
| Humgoda Investments Pty Ltd | 6,020,115 | 0.86 |
| Kovron Pty Ltd | 5,840,633 | 0.83 |
| RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C> | 4,830,089 | 0.69 |
| Panmax Pty Limited <Super Fund A/C> | 4,785,189 | 0.68 |
| Mr Phillip John Wallace & Ms Bernadette Mary Wallace | 4,439,500 | 0.63 |
| J P Morgan Nominees Australia Limited | 4,221,176 | 0.60 |
| Balcony Developments Pty Ltd | 3,551,600 | 0.51 |
| Mr Bruce William Wallace & Mrs Zelma Wallace | 3,500,000 | 0.50 |
| Citicorp Nominees Pty Limited <CFSIL CWLTH Property 6 A/C> | 3,102,957 | 0.44 |
| Rosstile Management Pty Ltd | 3,039,047 | 0.43 |
| Sandhurst Trustees Ltd | 2,852,159 | 0.41 |
| Mr Neal John Ambrose & Mrs Anne Christine Ambrose | 2,739,754 | 0.39 |
| | 207,616,810 | 29.55 |

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.

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:

Computershare Investor Services Pty Limited

Level 19, 307 Queen Street, Brisbane QLD 4000

Telephone: 1300 550 841

Outside Australia: +61 3 9415 4310

Facsimile: (07) 3237 2151

Website: www.computershare.com.au

E-mail: web.queries@computershare.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.computershare.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 Computershare 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 continued

Distributions/Dividends

Cromwell Corporation Limited Dividends

Dividends paid to Cromwell Corporation Limited shareholders prior to the date of the stapling transaction were:

| Period Ending | Dividend | Record Date | Payment Date | Franked Amount |
|--------------------------|-----------|-------------------|------------------|----------------|
| 30 June 2006 | 4.5 cents | 28 September 2006 | 5 October 2006 | 33% |
| Special Dividend* | 0.1 cents | 12 December 2006 | 15 December 2006 | 100% |

* Special Dividend used to subscribe for units in the Trust as part of the stapling transaction.

Cromwell Group Dividends/Distributions

In December 2006, following a 0.8879:1 reconstruction, shares in Cromwell Corporation Limited (the Company) were stapled to units in the Cromwell Diversified Property Trust (the Trust) creating the ASX-listed Cromwell Group stapled security. At the time of stapling, shareholders in the Company and unitholders in the Trust became Cromwell Group securityholders.

Since the date of the stapling transaction, the following distributions/dividends have been paid:

| Period Ending | Distribution/Dividend | Ex Dividend Date | Record Date | Payment Date | DRP Price |
|--------------------------|-----------------------|-------------------|------------------|------------------|-----------|
| 30 June 2008 | 2.50 cents | 24 June 2008 | 30 June 2008 | 29 August 2008 | N/A |
| 31 March 2008 | 2.50 cents | 25 March 2008 | 31 March 2008 | 15 May 2008 | N/A |
| 31 December 2007 | 2.50 cents | 21 December 2007 | 31 December 2007 | 15 February 2008 | \$1.0835 |
| 30 September 2007 | 2.50 cents | 25 September 2007 | 2 October 2007 | 15 November 2007 | \$1.2477 |
| 30 June 2007 | 2.25 cents | 25 June 2007 | 29 June 2007 | 31 August 2007 | \$1.1662 |
| 31 March 2007 | 1.50 cents | 28 March 2007 | 3 April 2007 | 21 May 2007 | \$1.1268 |
| 31 January 2007 | 1.50 cents | 6 February 2007 | 12 February 2007 | 20 March 2007 | \$1.1794 |

Cromwell Property Preference Shares

Cromwell Property Preference Shares (PPS) were created as a liquidity option for the Trust and began trading on the ASX on 5 April 2004. All PPS were redeemed at the initial issue price of \$1.00 on 25 February 2008. The PPS had the right to an unfranked dividend at a rate equal to the higher of 8.5% pa or 95% of the annualised cash distributions paid by the Trust. Dividends were paid every 6 months.

Since 30 June 2007, the following PPS dividends have been paid:

| Period Ending | Dividend | Record Date | Payment Date | Yield |
|-------------------------|-------------|------------------|------------------|----------|
| 25 February 2008 | 1.550 cents | 15 February 2008 | 25 February 2008 | 9.50% pa |
| 31 December 2007 | 4.750 cents | 6 February 2008 | 25 February 2008 | 9.50% pa |
| 30 June 2007 | 4.275 cents | 26 July 2007 | 31 August 2007 | 8.55% pa |

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. 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 Queensland 4001
 Telephone: (07) 3225 7777
 Facsimile: (07) 3225 7788
 Email: cromwell@cromwell.com.au

Directory

Board of Directors

Geoffrey H Levy, AO
Michelle A McKellar
David E Usasz
Robert J Pullar
Paul L Weightman
Daryl J Wilson
W Richard Foster

Company Secretary

Suzanne M Morgan

Share Registry

Computershare Investor Services Pty Ltd

Level 19
307 Queen Street
Brisbane QLD 4000
Telephone: 1300 550 841
Facsimile: (07) 3237 2152

Registered Office

Level 19
200 Mary Street
Brisbane QLD 4000
Telephone: (07) 3225 7777
Facsimile: (07) 3225 7788

Listing

Cromwell Group (CMW) is listed on the Australian Securities Exchange.

Auditor

Johnston Rorke
Chartered Accountants
Level 30, Central Plaza One
345 Queen Street
Brisbane QLD 4000
Telephone: (07) 3222 8444
Facsimile: (07) 3221 7779

