Cromwell Direct Property Fund

Consisting of the consolidated financial report of Cromwell Direct Property Fund (ARSN 165 011 905) and the entities it controlled

Half–Year Financial Report

31 December 2018

Responsible entity:
Cromwell Funds Management Limited
ABN 63 114 782 777 AFSL 333214
Level 19, 200 Mary Street
Brisbane QLD 4000

Contents

DIRECTORY

Responsible entity:

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Directors' Report

The Directors of Cromwell Funds Management Limited, the responsible entity of Cromwell Direct Property Fund, present their report together with the consolidated financial statements for Cromwell Direct Property Fund and the entities it controlled (the "Fund") at the end of the half-year ended 31 December 2018.

The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Fund since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group, a global real estate investment manager with $11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Cromwell BT Pty Ltd, which holds the Fund's assets on behalf of the unitholders.

The responsible entity's Directors are as follows:

Ms MA McKellar	Non-executive Director
Ms JA Tongs	Non-executive Director
Mr WRL Foster	Non-executive Director
Mr PL Weightman	Executive Director

Review of operations and results

Financial performance

The Fund recorded a statutory profit of $2,016,000 for the half-year ended 31 December 2018 (2017: statutory profit of $3,409,000) and paid distributions of $5,727,000 (2017: $4,437,000).

The statutory profit includes a number of items which are non-cash in nature, or occur infrequently, and/or relate to realised or unrealised changes in the values of assets and liabilities, and in the opinion of the Directors of the responsible entity need to be adjusted for in order to allow unitholders to gain a better understanding of the Fund's underlying operating profit. Operating profit is considered by the Directors to reflect the underlying earnings of the Fund. It is a key metric taken into account in determining distributions for the Fund.

The following table shows the Fund's performance against its benchmark index since the Fund's inception:

	1 year	2 year (annualised)	3 year (annualised)	Since inception (annualised)
Fund performance (after fees and costs)	7.5%	8.5%	8.5%	10.5%
PCA/IPD Unlisted Retail Property Fund Core Index	12.5%	16.8%	18.1%	20.4%
Excess /(under) return (after fees and costs)	(5.0%)	(8.3%)	(9.6%)	(9.9%)

The Fund's lower performance compared with the benchmark was influenced by the Fund holding a high cash balance (since inception) as Directors patiently waited for the right investment opportunities. As a result, the Fund had nil gearing for the vast majority of the period until the settlement of 420 Flinders Street, Townsville QLD, which occurred 21 December 2018, when gearing rose to 15%. The risk adjusted returns of the Fund and the benchmark are therefore not alike. The benchmark profited from significant valuation increases across the unlisted property fund sector in Australia during the comparison periods shown above whilst also maintaining a higher gearing level.

In December 2018 the Fund acquired a property at 420 Flinders Street, Townsville QLD for $63,500,000. Related acquisition transaction costs of $5,124,000 were immediately recognised as a fair value write-down in accordance with accounting standards, which heavily impacted the statutory profit for the half-year. The Directors are confident this asset will be viewed as a valuable addition to the portfolio in the coming years.

The Fund recorded an operating profit for the half-year of $5,628,000 (2017: $4,082,000). Operating profit is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been audited or reviewed by the Fund's auditor. A reconciliation of operating profit for the Fund, as assessed by the Directors, to the reported loss / profit for the period is as follows:

	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Operating profit	**5,628**	4,082
Reconciliation to loss for the year		
Fair value net (losses) / gains:		
Investment properties	**(4,822)**	(1,310)
Investments at fair value through profit or loss (net of acquisition costs)	**306**	486
Non-cash property investment income / (expense):		
Straight-line lease income	**1,166**	222
Lease incentive and lease cost amortisation	**(202)**	(43)
Amortisation of loan transaction costs	**(60)**	(28)
Profit for the half-year	**2,016**	3,409

Rental income, excluding straight-line lease income, which is a non-cash item, was $5,750,000 (2017: $3,751,000).

	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Base rent and recoverable outgoings	**5,782**	3,751
Straight-line lease income	**1,166**	222
Lease incentive and lease cost amortisation	**(202)**	(43)
Rental income and recoverable outgoings	**6,746**	3,930

The increase in base rent and recoverable outgoings is largely due to the impact of having the property at 433 Boundary Street, Spring Hill for the entire current period, which was not the case during the prior comparative period. It is also due to annual increases in rent received from the tenants at the other properties.

Operating profit per unit for the half-year was 3.5 cents (2017: 3.2 cents). Distributions paid/payable per unit for the half-year were on average 3.5 cents (2017: 3.5 cents).

	Half-year ended	
	31 December 2018 cents	31 December 2017 cents
Operating profit per unit (1)	**3.5**	3.2
Profit per unit	**1.2**	2.7
Distribution per unit	**3.5**	3.5

(1) Based upon operating profit disclosed on page 3.

Financial position

	As at	
	31 December 2018	30 June 2018
Total assets ($'000)	**258,222**	192,048
Net assets ($'000)	**204,622**	187,317
Net debt ($'000) (1)	**36,543**	-
Gearing (%) (2)	**15%**	-
Units issued ('000)	**169,594**	152,740
NTA per unit	**$1.21**	$1.23

(1) Borrowings less cash and cash equivalents.
(2) Net debt divided by total tangible assets less cash and cash equivalents.

NTA per unit is a key measure of the underlying value of the Fund's assets. This was $1.21 per unit at half-year end compared with $1.23 per unit at the end of the last financial year. The decrease in NTA is a result of the write off of acquisition costs associated with the property acquired in December 2018 combined with an increase in the number of units on issue.

Subsequent events

No matter or circumstance has arisen since 31 December 2018 that has significantly affected or may significantly affect:

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

Rounding of amounts

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument 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.

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) accompanies this report on page 6.

This report is made pursuant to section 306(3) of the *Corporations Act 2001* (Cth).

PL Weightman
Director
27 February 2019
Brisbane

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The Directors
Cromwell Funds Management Limited
As Responsible Entity for Cromwell Direct Property Fund
Level 19
200 Mary Street
BRISBANE QLD 4000

Dear Directors

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Cromwell Direct Property Fund for the half-year ended 31 December 2018, 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 review; and

(ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Cromwell Direct Property Fund and the entities it controlled during the period.

PITCHER PARTNERS

WARWICK FACE
Partner

Brisbane, Queensland
27 February 2019

Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2018

		Half-year ended	
	Notes	**31 December 2018 $'000**	31 December 2017 $'000
Revenue and other income			
Rental income and recoverable outgoings		**6,746**	3,930
Distribution income		**1,833**	1,637
Interest		**184**	208
Fair value gains from investments in unlisted property schemes		**306**	486
Total revenue and other income		**9,069**	6,261
Expenses			
Property expenses and outgoings		**1,380**	928
Management and administration costs		**581**	422
Finance costs	5(b)	**270**	192
Fair value net loss from investment properties	3	**4,822**	1,310
Total expenses		**7,053**	2,852
Profit for the half-year		**2,016**	3,409
Other comprehensive income for the half-year		**-**	-
Total comprehensive profit for the half-year		**2,016**	3,409

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 $'000	As at 30 June 2018 $'000
Current assets			
Cash and cash equivalents		**10,458**	15,174
Receivables		**617**	476
Other current assets		**431**	34
Total current assets		**11,506**	15,684
Non-current assets			
Investment properties	3	**184,106**	119,156
Investments in unlisted property schemes	4	**62,491**	57,150
Other non-current assets		**-**	58
Total non-current assets		**246,597**	176,364
Total assets		**258,103**	192,048
Current liabilities			
Trade and other payables		**4,611**	3,010
Distribution payable		**980**	864
Unearned income		**889**	857
Total current liabilities		**6,400**	4,731
Non-current liabilities			
Borrowings	5	**47,001**	-
Total non-current liabilities		**47,001**	-
Total liabilities		**53,481**	4,731
Net assets		**204,622**	187,317
Equity			
Contributed equity	6	**194,698**	173,682
Retained earnings		**9,924**	13,635
Total equity		**204,622**	187,317

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016

31 December 2018	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2018		**173,682**	**13,635**	**187,317**
Total comprehensive income for the half-year		**-**	**2,016**	**2,016**
Transactions with unitholders in their capacity as unitholders:				
Units issued:				
For cash	6	**26,808**	**-**	**26,808**
Reinvestment of distributions	6	**563**	**-**	**563**
Units redeemed for cash	6	**(6,355)**	**-**	**(6,355)**
Distributions paid / payable	2	**-**	**(5,727)**	**(5,727)**
Total transactions with unitholders		**21,016**	**(5,727)**	**15,289**
Balance at 31 December 2018		**194,698**	**9,924**	**204,622**

31 December 2017	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2017		128,279	11,478	139,757
Total comprehensive income for the half-year		-	3,409	3,409
Transactions with unitholders in their capacity as unitholders:				
Units issued:				
For cash	6	25,359	-	25,359
Reinvestment of distributions	6	353	-	353
Units redeemed for cash	6	(3,914)	-	(3,914)
Distributions paid / payable	2	-	(4,437)	(4,437)
Total transactions with unitholders		21,798	(4,437)	17,361
Balance at 31 December 2017		150,077	10,450	160,527

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities		
Receipts in the course of operations	**6,231**	4,306
Payments in the course of operations	**(1,257)**	(960)
Distributions received	**1,799**	1,622
Interest received	**179**	209
Finance costs paid	**(150)**	(161)
Net cash provided by operating activities	**6,802**	5,016
Cash flows from investing activities		
Payments for investment properties	**(68,888)**	(44,579)
Payments for investments in unlisted property schemes	**(5,035)**	(1,477)
Net cash used in investing activities	**(73,923)**	(46,056)
Cash flows from financing activities		
Proceeds from borrowings	**47,095**	11,000
Payment of loan transaction costs	**(95)**	-
Proceeds from issue of units	**26,808**	25,359
Payments for units redeemed	**(6,355)**	(3,914)
Payment of distributions	**(5,048)**	(3,984)
Net cash provided by financing activities	**62,405**	28,461
Net decrease in cash and cash equivalents	**(4,716)**	(12,579)
Cash and cash equivalents at 1 July	**15,174**	17,861
Cash and cash equivalents at 31 December	**10,458**	5,282

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

1 Basis of preparation

This consolidated general purpose financial report of Cromwell Direct Property Fund and the entities it controlled (the "Fund") for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). The financial report is designed to provide an update on the Fund's financial performance and financial position since the last annual financial report was issued. This financial report therefore does not include all the notes normally included in an annual financial report and needs to be read in conjunction with the annual report for the year ended 30 June 2018. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies adopted, other than those outlined below under *New and amended standards adopted by the Fund*, are consistent with those of the previous financial year and corresponding half-year reporting period.

(i) Rounding of amounts

The Fund of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument 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.

(ii) New and amended standards adopted by the Fund

During the half-year reporting period ended 31 December 2018, the following new accounting standards and interpretations were adopted by the Fund:

	Application date of Standard	**Application date for the Fund**
AASB 9 *Financial Instruments*	1 Jan 2018	1 Jul 2018
AASB 15 *Revenue from Contracts with Customers*	1 Jan 2018	1 Jul 2018

The impact of adoption of the new standards for the half-year reporting period is summarised below.

AASB 9 Financial Instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets that are classified as available-for-sale or are designated at fair value through profit or loss, as well as financial liabilities designated at fair value through profit or loss. The standard also introduces new rules for hedge accounting, to align more closely with an entity's risk management practices.

As noted in the Fund's annual financial report for the year ended 30 June 2018, the Fund does not carry such financial assets or financial liabilities, and currently does not apply hedge accounting. As a result, adoption of the new accounting standard from 1 July 2018 will not have a material impact on the accounting for financial assets or financial liabilities, nor will it have a material impact on the Fund's hedging arrangements in the half-year reporting period ended 31 December 2018. Comparative results have not been restated.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 *Revenue*, which currently covers contracts for goods and services, and AASB 111 *Construction Contracts* which covered construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

As noted in the Fund's annual financial report for the year ended 30 June 2018, the standard does not change the recognition of the Fund's primary revenue item, being rental income and recoverable outgoings. As a result, adoption of the new accounting standard from 1 July 2018 will not have a material impact on the Fund. Comparative results have not been restated.

The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(iii) New standards and interpretations not yet adopted

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

	Application date of Standard	**Application date for Cromwell**
AASB 16 *Leases*	1 Jan 2019	1 Jul 2019

AASB 16 Leases

The AASB has issued a new standard for leases. This will replace AASB 117 Leases. The accounting standard introduces a single accounting model for leases by lessees and effectively does away with the operating lease concept. It requires all operating leases, which are currently not recorded on the balance sheet, to be recognised on the balance sheet together with a right-of-use asset. Subsequently the lease liability is measured at amortised cost using the effective interest rate method. The right-to-use asset will be measured at cost less accumulated depreciation with depreciation charged on a straight-line basis over the lease term. There will be no change to lease accounting for lessors, that is the Fund will record investment properties and lease income as currently done.

The Directors have performed an initial assessment of the new requirements of AASB 16 and found that there will be no significant impact on the Trust as lessor of investment properties, except for a change in the definition of a lease period. The change in the definition will require renewal options to be included if they are likely to be exercised, which may affect straight-line rent recognised for such leases. Otherwise the Trust's treatment of lease income remains unchanged.

However, the Fund's operating lease arrangement in relation to the land at Parafield will be recorded on balance sheet in accordance with the requirements described above. The current forecast impact of the Fund's operating lease arrangements has been assessed and disclosed in in the Fund's annual financial report for the year ended 30 June 2018.

Continuous disclosure

Continuous disclosure and updates on the Fund's performance and events significant to the Fund are provided on Cromwell's webpage at www.cromwell.com.au/investment-options/cromwell-direct-property-fund

2 Distributions

(a) Overview

The Fund's distribution policy is to distribute an amount which is no more than 100% of expected profits available for distribution over the medium term. Profits available for distribution exclude fair value gains or losses.

(b) Distributions paid / payable

Distribution rates per unit since inception of the Fund were as follows:

From inception:	7.00 cents
1 July 2014 to 30 April 2015:	7.25 cents
1 May 2015 to 30 June 2015:	4.75 cents
1 July 2015 to 30 June 2016:	6.00 cents
1 July 2016 to 30 June 2018:	7.00 cents
Since 1 July 2018:	7.00 cents

Total distributions paid / payable during the half-year were as follows:	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Distributions paid / payable	**5,727**	4,437

3 Investment properties

(a) Overview

The Fund holds five investment properties:

- 64 Allara Street is a six-level A-grade office building located in the Canberra CBD. The major tenants of the building are the Canberra Investment Corporation and Jacobs Australia Pty Ltd.
- Parafield Retail Complex is a purpose-built retail complex located within the Adelaide Parafield Airport precinct. The major tenant is Home Consortium whose lease obligations are guaranteed by Woolworths Limited.
- Bunnings Playford is a Bunnings home improvement and hardware store in Northern Adelaide.
- 433 Boundary Street was acquired in December 2017 for $42,000,000. The major tenant is International Education Services Limited.
- 420 Flinders Street, Townsville QLD was acquired in December 2018 for $63,500,000. The property is the head office for a state-owned electricity corporation, Energy Queensland. Related acquisition transaction costs of $5,124,000 were immediately effectively recognised as a fair value write-down in accordance with accounting standards.

		Independent valuation		Carrying amount		Fair value adjustment	
		As at		As at		For the half-year ended	
	Independent valuation date	**31-Dec 2018 $'000**	30-Jun 2018 $'000	**31-Dec 2018 $'000**	30-Jun 2018 $'000	**31-Dec 2018 $'000**	31-Dec 2017 $'000
64 Allara Street, ACT	Dec-18	**18,000**	17,500	**18,000**	17,500	**396**	568
Masters Parafield, SA	Mar-18	**27,250**	27,250	**27,250**	27,250	**(38)**	214
Bunnings Playford, SA	Sep-18	**31,300**	30,350	**31,300**	30,350	**756**	1,245
433 Boundary Street, QLD	Dec-18	**44,056**	44,056	**44,056**	44,056	**(784)**	(3,337)
420 Flinders Street, QLD	N/A	**63,500**	-	**63,500**	-	**(5,152)**	-
Total investment properties		**184,106**	119,156	**184,106**	119,156	**(4,822)**	(1,310)

(b) Movements in investment properties

A reconciliation of the carrying amounts of investment properties at the beginning and the end of the financial period is set out below:

	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Balance at 1 July	**119,156**	72,150
Additions at cost:		
Acquisitions	**63,500**	42,000
Acquisition transaction costs	**5,124**	3,325
Lifecycle	**184**	6
Straight-line lease income	**1,166**	222
Lease incentive and lease cost amortisation and lease abatement	**(202)**	(43)
Net loss from fair value adjustments	**(4,822)**	(1,310)
Total investment properties	**184,106**	116,350

4 Investments in unlisted property schemes

(a) Overview

The Fund's investment portfolio comprises investments in units of unlisted property trusts also managed by the responsible entity, Cromwell Funds Management Limited. These property trusts directly own a number of commercial investment properties. The Fund receives distributions from these trusts on a monthly basis.

b) Investment details

As at period end the Fund held the following investments:

	As at	
	31 December 2018 $'000	30 June 2018 $'000
Cromwell Riverpark Trust	**37,592**	36,198
Cromwell Ipswich City Heart Trust	**15,184**	6,464
Cromwell Property Trust 12	**9,715**	14,488
Total investments in unlisted property schemes	**62,491**	57,150

For accounting purposes these investments are classified as investments at fair value through profit or loss. At each period end the fair value of these investments is determined based on the net tangible asset (NTA) value of the respective trust with fair value gains or losses recognised in profit or loss. For further details about the fair value measurement of these financial assets refer to note 7.

5 Borrowings

(a) Overview

In July 2016 the Fund entered into a $35 million debt facility, secured over the properties of the Fund. In December 2018, the Fund renegotiated the terms of its finance facility extending the term of the facility by a further three years to December 2021. The facility limit was increased to $55 million. Interest on the facility is payable in arrears at the applicable bank bill rate (BBSY) plus a bank margin. During the period ending 31 December 2018, the facility was drawn to $47 million, which includes $0.2m of amortised loan establishment costs. The proceeds of the loan were used to acquire the property at 420 Flinders Street, Townsville QLD. This property is not part of the security for the debt facility.

	As at	
	31 December 2018 $'000	30 June 2018 $'000
Secured:		
Bank loan – investment property	**47,001**	-
Total borrowings – non-current	**47,001**	-

(b) Finance costs

	Half-year ended	
	31 December 2018 $'000	31 December 2017 $'000
Interest	**210**	164
Amortisation of loan transaction costs	**60**	28
Total finance costs	**270**	192

6 Contributed equity

(a) Overview

Units are issued and redeemed by the Fund at a unit price determined daily in accordance with the responsible entity's Unit Pricing Policy. Per the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority's (APRA's) Unit Pricing: Guide to Good Practice, investors will receive compensation for any material unit pricing errors. In accordance with these guidelines the Fund does not pay exited members compensation for material unit pricing errors where the amount of any compensation payable is less than $20.

(b) Movements in contributed equity

	# '000	**$'000**
Balance at 30 June 2017	115,809	128,279
Units issued for cash	20,723	25,359
Reinvestment of distributions	289	353
Units redeemed for cash	(3,194)	(3,914)
Balance at 31 December 2017	133,627	150,077
Units issued for cash	21,944	27,125
Reinvestment of distributions	372	433
Units redeemed for cash	(3,203)	(3,953)
Balance at 30 June 2018	152,740	173,682
Units issued for cash	**21,465**	**26,808**
Reinvestment of distributions	**452**	**563**
Units redeemed for cash	**(5,063)**	**(6,355)**
Balance at 31 December 2018	**169,594**	**194,698**

7 Fair value disclosures – financial instruments

(a) Overview

This note provides an update on the fair value measurements of financial instruments since the last annual financial report, including estimates and judgements made to determine the fair value of financial instruments.

b) Fair value hierarchy

The Fund measures and recognises the following financial instruments at fair value on a recurring basis:

- Investments at fair value through profit or loss.

AASB 13 *Fair Value Measurement* describes a hierarchy of fair value measurements depending on the type of inputs used to determine fair value. The levels of fair value measurement as described in the accounting standard are as follows:

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

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

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

The classification into different levels provides an indication about the reliability of the inputs used in determining fair value with level 1 measurements using the most reliable inputs and level 3 using the least reliable inputs as they are based on judgements and estimates.

The fair value of the Fund's financial assets at fair value through profit or loss are level 2 fair value measurements. These investments are comprised of unlisted equity securities of Cromwell Property Group managed investment schemes which invest in investment property. The fair value of these financial assets is based upon the net tangible assets as publicly reported by the underlying unlisted entity, adjusted for inherent risk where appropriate.

The Fund held no other financial instruments at fair value in the current or prior year and there were no transfers between levels of the fair value hierarchy during the financial period.

c) Fair values of other financial instruments not measured at fair value

The fair values of receivables, other current assets, payables, distributions payable and borrowings are assumed to approximate their fair values due to their short-term nature.

8 Unrecognised items

(a) Contingent liabilities

As disclosed in the Fund's 30 June 2018 annual financial report the Directors are not aware of any material contingent liabilities and the Directors are not aware of any material changes in contingent liabilities of the Fund since the last annual financial report.

(b) Commitments

Operating lease commitments

In 2017 the Fund entered into a long term lease of development land with the Parafield Airport, Main North Road, Parafield in South Australia. A Masters home improvement and hardware store has been constructed on the 3.7 hectares site. The initial lease term was 33 years with an option of a further 49 years should the Parafield Airport extend its head lease with the Commonwealth of Australia.

Minimum lease payments under the non-cancellable operating lease are as follows:

	31 December 2018 $'000	30 June 2018 $'000
Within one year	**438**	**438**
Later than one year but not later than five years	**1,753**	**2,191**
Later than five years	**10,698**	**10,480**
	12,889	**13,109**

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund (collectively referred to as "the Directors"):

(a) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:

 (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth), and

 (ii) giving a true and fair view of the Fund's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.

This report is made pursuant to section 303(5) of the *Corporations Act 2001* (Cth).

PL Weightman
Director
27 February 2019
Brisbane

PITCHER PARTNERS

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Cromwell Direct Property Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cromwell Direct Property Fund, which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Cromwell Funds Management Limited (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the fund's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cromwell Direct Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cromwell Direct Property Fund is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the fund's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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WARWICK FACE
Partner
Brisbane, Queensland
27 February 2019