



**CROMWELL**  
PROPERTY GROUP

# 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 2019

---

Responsible entity:  
Cromwell Funds Management Limited  
ABN 63 111 782 777 AFSL 353 214  
Level 19, 200 Mary Street  
Brisbane QLD 4000

# Contents

Directors' Report 3

Auditor's Independence Declaration 6

## Financial Statements

Consolidated Statement of Profit or Loss	7	Consolidated Statement of Changes in Equity	9
Consolidated Balance Sheet	8	Consolidated Statement of Cash Flows	10

Notes to the Financial Statements 11

Directors' Declaration 17

Independent Auditor's Review Report 18

## DIRECTORY

### *Responsible entity:*

Cromwell Funds Management Limited  
ABN 63 114 782 777  
AFSL 333 214  
Level 19, 200 Mary Street  
Brisbane QLD 4000  
Tel: +61 7 3225 7777  
Fax: +61 7 3225 7788  
Email: [invest@cromwell.com.au](mailto:invest@cromwell.com.au)  
Web: [www.cromwell.com.au](http://www.cromwell.com.au)

### *Custodian:*

Cromwell BT Pty Ltd  
Level 19, 200 Mary Street  
Brisbane QLD 4000  
Tel: +61 7 3225 7777  
Web: [www.cromwellpropertygroup.com](http://www.cromwellpropertygroup.com)

### *Auditor:*

Pitcher Partners  
Level 38, Central Plaza One  
345 Queen Street  
Brisbane QLD 4000  
Tel: +61 7 3222 8444  
Fax: +61 7 3221 7779  
Web: [www.pitcher.com.au](http://www.pitcher.com.au)

# 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 2019.

## 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 \$11.9 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 (collectively referred to as "the Directors"):

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 \$13,864,000 for the half-year ended 31 December 2019 (2018: statutory profit of \$2,016,000) and paid distributions of \$8,507,000 (2018: \$5,727,000).

The statutory profit includes a number of items which are non-cash in nature, occur infrequently and/or relate to realised or unrealised changes in the values of assets and liabilities. In the opinion of the Directors of the responsible entity, these items 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)	8.1%	7.8%	8.4%	10.2%
PCA/IPD Unlisted Retail Property Fund Core Index	16.9%	14.7%	16.8%	19.8%
Excess /(under) return (after fees and costs)	(8.8%)	(6.9%)	(8.4%)	(9.6%)

The Fund has achieved an annualised return since inception of 10.2%. Retaining a high cash balance relative to benchmark funds that offer no liquidity continues to impact on performance versus benchmark. Further, strong Fund inflows have resulted in a steady reduction of gearing from 35% to 16% over the reporting period, despite the acquisition of the Fund's seventh direct commercial property asset, located in the city of Queanbeyan, ACT. 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 material gearing level. Directors continue to search for the right investment opportunity with which to deploy available capital.

The Fund recorded an operating profit for the half-year of \$9,078,000 (2018: \$5,628,000). 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 2019 \$'000	31 December 2018 \$'000
<b>Operating profit</b>	<b>9,078</b>	5,628
<i>Reconciliation to profit for the half-year</i>		
Fair value net gains / (losses):		
Investment properties	4,266	(4,822)
Investments at fair value through profit or loss (net of acquisition costs)	1,050	306
Derivative financial instruments	(164)	-
Non-cash property investment income / (expense):		
Straight-line lease income	776	1,166
Lease incentive and lease cost amortisation	(925)	(202)
Depreciation of right-of-use asset	(163)	-
Amortisation of loan transaction costs	(54)	(60)
<b>Profit for the half-year</b>	<b>13,864</b>	2,016

# Directors' Report

Rental income, excluding straight-line lease income, which is a non-cash item, was \$12,682,000 (2018: \$5,782,000).

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
Base rent and recoverable outgoings	12,682	5,782
Straight-line lease income	776	1,166
Lease incentive and lease cost amortisation	(906)	(202)
<b>Rental income and recoverable outgoings</b>	<b>12,552</b>	<b>6,746</b>

The increase in base rent and recoverable outgoings is largely due to the impact of acquiring investment properties at 163 O'Riordan St, NSW, 11 Farrer Place, NSW, and 420 Flinders Street, QLD. 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 3.8 cents (2018: 3.5 cents). Distributions paid/payable per unit for the half-year were on average 3.6 cents (2018: 3.5 cents).

	Half-year ended	
	31 December 2019 cents	31 December 2018 cents
Operating profit per unit <sup>(1)</sup>	3.8	3.5
Profit per unit	5.9	1.2
Distribution per unit	3.6	3.5

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

## Financial position

	As at	
	31 December 2019	30 June 2019
Total assets (\$'000)	457,877	380,829
Net assets (\$'000)	335,090	223,577
Net tangible assets (\$'000)	335,666	223,577
Net debt (\$'000) <sup>(2)</sup>	65,348	129,574
Gearing (%) <sup>(3)</sup>	16%	35%
Units issued ('000)	273,313	189,042
NTA per unit	\$1.23	\$1.18

(1) Net assets less right-of-use asset and associated lease liability.

(2) Interest bearing liabilities less lease liabilities and cash and cash equivalents.

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

Net tangible asset (NTA) per unit is a key measure of the underlying value of the Fund's assets. This was \$1.23 per unit at half-year end compared with \$1.18 per unit at the end of the last financial year. The increase in NTA is a result of the increased value of investments from prior comparative period.

## Subsequent events

No matter or circumstance has arisen since 31 December 2019 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

25 February 2020

Brisbane



Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

p. +61 7 3222 8444

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

### Auditor's Independence Declaration

In relation to the independent auditor's review for the half-year ended 31 December 2019, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

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

PITCHER PARTNERS

A handwritten signature in black ink, appearing to read 'Warwick Face', written over a horizontal line.

WARWICK FACE  
Partner

Brisbane, Queensland  
25 February 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation  
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities



[pitcher.com.au](http://pitcher.com.au)

# Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2019

	Notes	Half-year ended	
		31 December 2019 \$'000	31 December 2018 \$'000
<b>Revenue and other income</b>			
Rental income and recoverable outgoings	3	12,552	6,746
Distribution income	3	2,092	1,833
Interest	3	153	184
Fair value net gains from:			
Investments in unlisted property schemes	3	1,050	306
Investment properties	4	4,266	-
<b>Total revenue and other income</b>		<b>20,113</b>	<b>9,069</b>
<b>Expenses</b>			
Property expenses and outgoings		2,791	1,380
Management and administration costs		1,184	581
Finance costs	6(b)	2,110	270
Fair value net losses from:			
Derivative financial instrument		164	-
Investment properties	4	-	4,822
<b>Total expenses</b>		<b>6,249</b>	<b>7,053</b>
<b>Profit for the half-year</b>		<b>13,864</b>	<b>2,016</b>
Other comprehensive income for the half-year		-	-
<b>Total comprehensive profit for the half-year</b>		<b>13,864</b>	<b>2,016</b>

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 31 December 2019

	Notes	As at	
		31 December 2019 \$'000	30 June 2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents		37,133	12,854
Receivables		581	759
Other current assets		831	507
<b>Total current assets</b>		<b>38,545</b>	<b>14,120</b>
<b>Non-current assets</b>			
Investment properties	4	350,967	299,406
Investments in unlisted property schemes	5	68,365	65,041
Other non-current assets		-	2,262
<b>Total non-current assets</b>		<b>419,332</b>	<b>366,709</b>
<b>Total assets</b>		<b>457,877</b>	<b>380,829</b>
<b>Current liabilities</b>			
Trade and other payables		7,635	11,927
Distribution payable		1,580	1,081
Derivative financial instrument	7	203	98
Interest bearing liabilities	6	395	-
Unearned income		749	1,483
<b>Total current liabilities</b>		<b>10,562</b>	<b>14,589</b>
<b>Non-current liabilities</b>			
Derivative financial instrument	7	295	235
Interest bearing liabilities	6	111,930	142,428
<b>Total non-current liabilities</b>		<b>112,225</b>	<b>142,663</b>
<b>Total liabilities</b>		<b>122,787</b>	<b>157,252</b>
<b>Net assets</b>		<b>335,090</b>	<b>223,577</b>
<b>Equity</b>			
Contributed equity	8	325,264	219,108
Retained earnings		9,826	4,469
<b>Total equity</b>		<b>335,090</b>	<b>223,577</b>

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



# Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

31 December 2019	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2019		219,108	4,469	223,577
Total comprehensive income for the half-year		-	13,864	13,864
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	8	112,658	-	112,658
Reinvestment of distributions	8	771	-	771
Units redeemed for cash	8	(7,273)	-	(7,273)
Distributions paid / payable	2	-	(8,507)	(8,507)
Total transactions with unitholders		106,156	(8,507)	97,649
<b>Balance at 31 December 2019</b>		<b>325,264</b>	<b>9,826</b>	<b>335,090</b>

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
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	8	26,808	-	26,808
Reinvestment of distributions	8	563	-	563
Units redeemed for cash	8	(6,355)	-	(6,355)
Distributions paid / payable	2	-	(5,727)	(5,727)
Total transactions with unitholders		21,016	(5,727)	15,289
<b>Balance at 31 December 2018</b>		<b>194,698</b>	<b>9,924</b>	<b>204,622</b>

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

# Consolidated Statement of Cash Flows

For the half-year ended 31 December 2019

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
<b>Cash flows from operating activities</b>		
Receipts in the course of operations	13,147	6,231
Payments in the course of operations	(6,456)	(1,257)
Distributions received	2,073	1,799
Interest received	153	179
Finance costs paid	(1,808)	(150)
<b>Net cash provided by operating activities</b>	<b>7,109</b>	<b>6,802</b>
<b>Cash flows from investing activities</b>		
Payments for investment properties	(38,704)	(68,888)
Payments for investments in unlisted property schemes	(2,274)	(5,035)
<b>Net cash used in investing activities</b>	<b>(40,978)</b>	<b>(73,923)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	47,095
Repayment of borrowings	(40,000)	-
Payment of loan transaction costs	-	(95)
Proceeds from issue of units	112,658	26,808
Payment for units redeemed	(7,273)	(6,355)
Payment of distributions	(7,237)	(5,048)
<b>Net cash provided by financing activities</b>	<b>58,148</b>	<b>62,405</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>24,279</b>	<b>(4,716)</b>
Cash and cash equivalents at 1 July	12,854	15,174
<b>Cash and cash equivalents at 31 December</b>	<b>37,133</b>	<b>10,458</b>

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

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## 1 Basis of preparation

This consolidated general purpose financial report of Cromwell Direct Property Fund and the entities it controlled for the half-year reporting period ended 31 December 2019 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 2019. 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 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.

### (ii) New and amended standards adopted by the Fund

During the half-year reporting period ended 31 December 2019, the following new accounting standard was adopted by the Fund:

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

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

#### AASB 16 Leases

The AASB has issued a new standard for leases which replaced AASB 117 *Leases* (AASB 117). 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 as a right-of-use asset with a corresponding financial liability, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. Depreciation will be charged on a straight-line basis over the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

In 2015 the Fund entered into a long-term lease for land with the Parafield Airport at the Parafield Retail Complex. The initial lease term was 33 years.

As a result of the adoption of AASB 16 by the Fund in the current reporting period, the Fund has recognised a right-of-use asset for the long-term lease of land in the fair value of the Parafield Retail Complex investment property. This is due to the leased land being held solely for the purpose of holding the related investment property building.

A corresponding lease liability has been recognised in relation to the present value of future lease payments.

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

#### 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/dpf](http://www.cromwell.com.au/dpf).

#### Segment information

The Fund operates in one operating segment, being direct and indirect property investment in Australia. The Fund generates revenues from investment property and earns distributions and derives capital appreciation from investments in unlisted property schemes.

#### Initial term and withdrawal opportunities

A full withdrawal opportunity will occur every five years commencing on 1 July 2020. At every withdrawal opportunity, the unitholders of the Fund will have an opportunity to withdraw from the Fund at a stated withdrawal price, determined in accordance with the Constitution. If withdrawal requests do not exceed 50% of the Fund's units on issue, the responsible entity will seek to satisfy withdrawal requests within the stated period, the Fund will continue and the next withdrawal opportunity will be made available five years after the first and each five years following. If all the withdrawal requests cannot be satisfied in the stated period, or if withdrawal requests exceed 50% or more of the Fund's units on issue on the first business day after the close of the notice period, the responsible entity will take steps to wind up the Fund in accordance with the Constitution and distribute net proceeds to investors.

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## 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 2019:	7.00 cents
Since 1 July 2019:	7.25 cents

Total distributions paid / payable during the half-year were as follows:

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
<b>Distributions paid / payable</b>	<b>8,507</b>	<b>5,727</b>

## 3 Revenue

### (a) Overview

The Fund recognises revenue to which AASB 15 *Revenue from Contracts with Customers (AASB 15)* pertains from the transfer of goods and services over time and at a point in time in respect of relevant items of rental income and recoverable outgoings.

The table below presents information about revenue recognised from contracts with customers in accordance with AASB 15, revenue from investment properties recognised and measured in accordance with AASB 16 *Leases*, revenue recognised under AASB 9 *Financial Instruments* and fair value gains from investment properties recognised under AASB 140 *Investment Property*.

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
Rental income and recoverable outgoings – non-lease components (AASB 15)	1,452	466
Rental income – lease component (AASB 16 and AASB 117 <sup>(1)</sup> )	11,100	6,280
<b>Rental income and recoverable outgoings</b>	<b>12,552</b>	<b>6,746</b>
<i>Revenue recognised under AASB 9 and AASB 140:</i>		
Distribution income	2,092	1,833
Interest	153	184
Fair value gains from investment properties	4,266	-
Fair value gains from investments in unlisted property schemes	1,050	306
<b>Total interest income and other revenue</b>	<b>7,561</b>	<b>2,323</b>
<b>Total revenue and other income</b>	<b>20,113</b>	<b>9,069</b>

(1) Comparative period revenue was recognised under AASB 117 *Leases*.

### (b) Disaggregation of revenue from contracts

The tables below presents information about the disaggregation of revenue items from the Fund's contracts with relevant customers.

	Half-year ended					
	31 December 2019			31 December 2018		
	Point in time \$'000	Over time \$'000	Total \$'000	Point in time \$'000	Over time \$'000	Total \$'000
Rental income and recoverable outgoings – non-lease components	251	1,201	1,452	91	375	466
<b>Total revenue from contracts with customers</b>	<b>251</b>	<b>1,201</b>	<b>1,452</b>	<b>91</b>	<b>375</b>	<b>466</b>

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## 4 Investment properties

### (a) Overview

The Fund holds seven investment properties:

- 64 Allara Street, ACT is a six-level A-grade office building. The major tenants of the building are Knight Frank Australia, Peet Limited 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 SA.
- 433 Boundary Street, QLD is an A-grade office building. The major tenant is International Education Services Limited.
- 420 Flinders Street, QLD was acquired in December 2018 for \$63,500,000. The property is the head office for a state-owned electricity corporation, Energy Queensland.
- 163 O'Riordan Street, NSW was acquired in June 2019 for \$113,300,000. The property is a high quality commercial office located close to Sydney Airport. The major tenants of the building are Electrolux and Winc Australia.
- 11 Farrer Place, NSW was acquired in November 2019 for \$35,000,000. The acquisition comprises a 4,052 square metre (sqm) site with 6,300 sqm of net lettable area and is located approximately 15km south-east of the Canberra CBD. The property is fully let to the NSW State Government until June 2028. Related acquisition transaction costs of \$2,276,000 were immediately recognised as a fair value write-down in accordance with accounting standards.

	Independent valuation		Carrying amount		Fair value adjustment	
	Date	Amount \$'000	As at		For the year ended	
			31-Dec 2019 \$'000	30-Jun 2019 \$'000	31-Dec 2019 \$'000	31-Dec 2018 \$'000
64 Allara Street, ACT	Dec-19	18,500	<b>18,500</b>	18,000	<b>495</b>	396
Parafield Retail Complex, SA <sup>(1)</sup>	Sep-19	29,000	<b>38,267</b>	29,000	<b>(489)</b>	(38)
Bunnings Playford, SA	Sep-19	33,600	<b>33,600</b>	31,300	<b>2,248</b>	756
433 Boundary Street, QLD	Dec-19	48,000	<b>48,000</b>	44,056	<b>3,954</b>	(784)
420 Flinders Street, QLD	Dec-19	64,300	<b>64,300</b>	63,750	<b>133</b>	(5,152)
163 O'Riordan Street, NSW	Jun-19	113,300	<b>113,300</b>	113,300	<b>201</b>	-
11 Farrer Place, NSW	Nov-19	35,000	<b>35,000</b>	-	<b>(2,276)</b>	-
<b>Total investment properties</b>		<b>341,700</b>	<b>350,967</b>	<b>299,406</b>	<b>4,266</b>	<b>(4,822)</b>

(1) The carrying value of Masters Parafield includes the right of use asset in regards to the ground lease recognised under AASB 16 Leases.

### (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 2019 \$'000	31 December 2018 \$'000
Balance at 1 July	<b>299,406</b>	119,156
<i>Additions at cost:</i>		
Acquisitions	<b>35,000</b>	63,500
Acquisition transaction costs	<b>2,893</b>	5,124
Lease costs and lease incentives	<b>267</b>	-
Right of use asset – ground lease	<b>9,267</b>	-
Lifecycle	<b>17</b>	184
Straight-line lease income	<b>776</b>	1,166
Lease incentive and lease cost amortisation and lease abatement	<b>(925)</b>	(202)
Net gain / (loss) from fair value adjustments	<b>4,266</b>	(4,822)
<b>Total investment properties</b>	<b>350,967</b>	<b>184,106</b>

## 5 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.

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## b) Investment details

As at period end the Fund held the following investments:

	As at	
	31 December 2019 \$'000	30 June 2019 \$'000
Cromwell Riverpark Trust	41,113	39,474
Cromwell Ipswich City Heart Trust	10,663	10,066
Cromwell Property Trust 12	16,589	15,501
<b>Total investments in unlisted property schemes</b>	<b>68,365</b>	<b>65,041</b>

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 9.

## 6 Interest bearing liabilities

### (a) Overview

In June 2019, the Fund executed a Common Terms Deed ("CTD"), allowing bilateral facility agreements ("BFA") to be entered with multiple lenders as funding requirements change. The CTD is secured by first registered mortgages over all of the investment properties owned by the Fund.

In June 2019, the Fund entered a \$146.5 million BFA (this includes a bank guarantee of \$220,000.00). This was drawn to \$142.75 million with the proceeds used to acquire the property at 163 O'Riordan Street, NSW, as well as repaying the previous outstanding loan balance of \$40.5 million utilised for the purchase of the property at 420 Flinders Street, QLD. The facility expires in June 2022, with interest payable monthly in arrears at the applicable 30-day bank bill rate (BBSY) plus a bank margin.

During the six months to 31 December 2019 \$40.0 million of this facility was repaid.

As a result of the adoption of AASB 16 Leases, the Fund has recognised a lease liability in regards to the ground lease at the Parafield Retail Complex property.

	As at	
	31 December 2019 \$'000	30 June 2019 \$'000
<b>Current</b>		
<i>Unsecured:</i>		
Lease liabilities – ground lease	395	-
<b>Total current interest bearing liabilities</b>	<b>395</b>	<b>-</b>
<b>Non-current</b>		
<i>Unsecured:</i>		
Lease liabilities – ground lease	9,449	-
<i>Secured:</i>		
Bank loan – financial institutions	102,746	142,746
Less: unamortised loan transaction costs	(265)	(318)
<b>Total non-current interest bearing liabilities</b>	<b>111,930</b>	<b>142,428</b>
<b>Total interest bearing liabilities</b>	<b>112,325</b>	<b>142,428</b>

### (b) Finance costs

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
Interest	1,889	210
Lease liability interest	168	-
Amortisation of loan transaction costs	53	60
<b>Total finance costs</b>	<b>2,110</b>	<b>270</b>

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## 7 Derivative financial instrument

The Fund manages its cash flow interest rate risk by using a floating-to-fixed interest rate swap contract. In this contract the Fund agrees with the other counterparty to exchange, at specified intervals (usually 30 days), the difference between the contract rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Under the contract, the Fund will effectively pay interest on a notional swap amount of \$73,250,000 until June 2022 at a fixed rate of 1.18%.

	As at	
	31 December 2019 \$'000	30 June 2019 \$'000
<i>Current liabilities</i>		
Interest rate swap contract	203	98
<i>Non-current liabilities</i>		
Interest rate swap contract	295	235

## 8 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") 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.

	As at 31 December 2019		As at 30 June 2019	
	#'000	\$'000	# '000	\$'000
<b>Issued units</b>	<b>273,313</b>	<b>325,264</b>	189,042	219,108

### (b) Movements in contributed equity

	# '000	\$'000
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
Units issued for cash	26,422	33,056
Reinvestment of distributions	428	649
Units redeemed for cash	(7,402)	(9,295)
Balance at 30 June 2019	189,042	219,108
Units issued for cash	89,443	112,658
Reinvestment of distributions	614	771
Units redeemed for cash	(5,786)	(7,273)
<b>Balance at 31 December 2019</b>	<b>273,313</b>	<b>325,264</b>

## 9 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.

# Notes to the Financial Statements

For the half-year ended 31 December 2019

## (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.

## 10 Unrecognised items

### (a) Contingent liabilities

As disclosed in the Fund's 30 June 2019 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

#### *Lease commitments*

In 2015 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 hectare 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.

The total undiscounted lease commitment disclosed in the Fund's 30 June 2019 annual financial report was \$12,670,000. As result of the adoption of AASB 16 *Leases*, the Fund recognised total lease liabilities of \$9,903,000 on 1 July 2019. The difference of \$2,767,000 is attributable to the discounting of the lease liabilities using the Fund's incremental borrowing rate at the date of initial application.



# Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund:

- (a) 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 2019 and of its performance for the half-year ended on that date;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



PL Weightman

Director

25 February 2020

Brisbane



Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

☎ +61 7 3222 8444

## **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 2019, the consolidated statement of profit or loss, 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 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 2019 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 the 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the responsible entity, would be in the same terms if given to the directors as at the time of this auditor's report.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation  
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities



[pitcher.com.au](http://pitcher.com.au)

*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 the Fund 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 2019 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PITCHER PARTNERS



WARWICK FACE  
Partner

Brisbane, Queensland  
25 February 2020