

A blurred, low-angle photograph of a modern interior hallway. The ceiling features recessed lighting and structural beams, with a warm, golden glow. The walls and floor are also blurred, showing a mix of dark and light tones, with a prominent red stripe running along the wall on the left side.

# abacus

annual report 2006

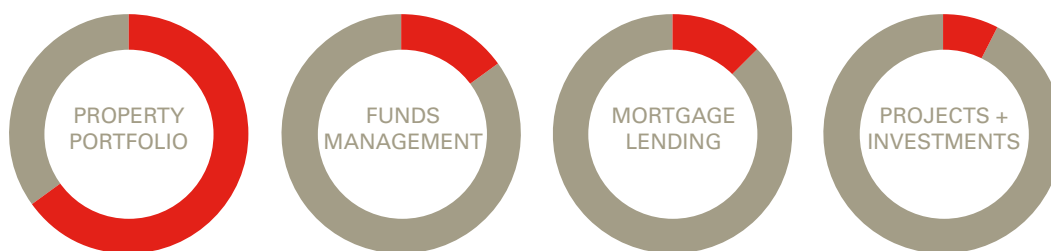


Lasting **SUCCESS** is achieved through single-minded focus. At Abacus Property Group, property isn't just something else that we do – it's all that we do.

## abacus property group

Abacus's diversified business model enables securityholders to participate in the income and capital growth from a diversified portfolio of property assets and property-based investments.

Rental income from the property portfolio is enhanced by fee income, interest income and profit participation from the other businesses to provide a blended return to securityholders. Our target is for approximately 60-70% of the Group's income flows from the property portfolio, 10-20% from funds management, 10-15% from mortgage lending and 5-10% from projects and other investments.



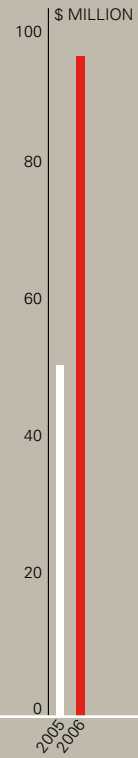
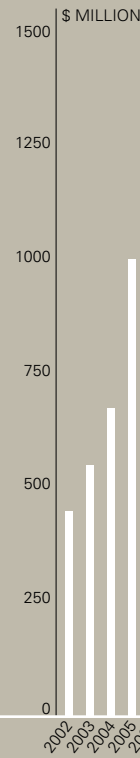
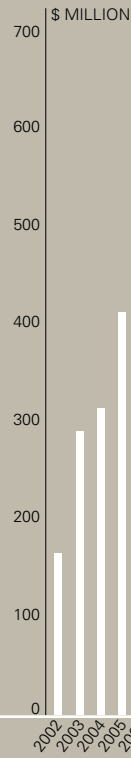
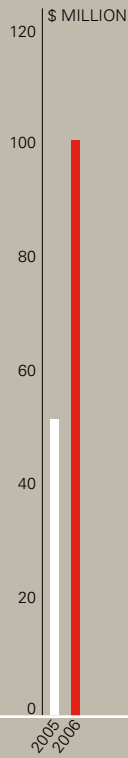
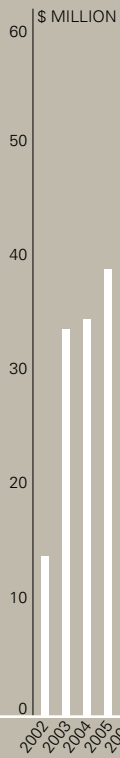
Net profit after tax and net of revaluation increments increased 35% to \$54 million

Net profit inclusive of revaluation increments increased 95% to \$101 million

Total equity increased 66% to \$673 million

Total assets under management increased 47% to \$1.4 billion

Retained earnings increased 89% to \$96 million



net profit  
NET OF REVALUATION  
INCREMENTS

net profit  
INCLUDING REVALUATION  
INCREMENTS

total equity

assets under  
management

retained earnings

strong growth  
in business

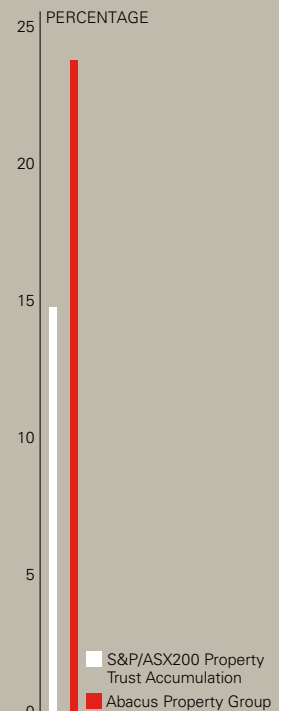
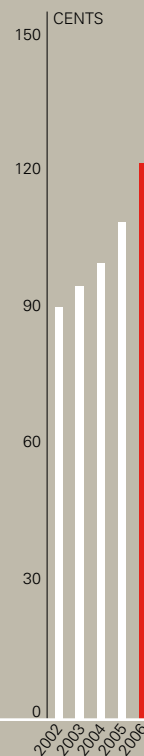
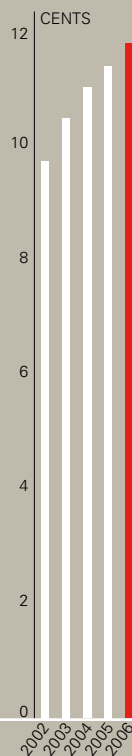
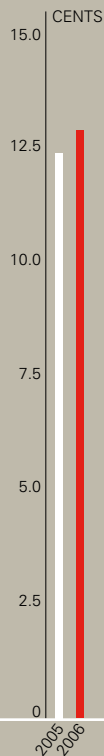
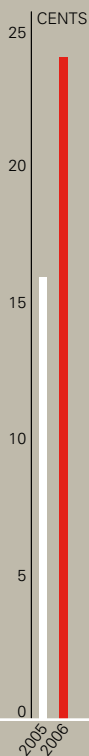
EPS (including revaluation increments) increased 50% to 24.22 cents

EPS (net of revaluation increments) increased 4% to 12.92 cents

Distributions increased 3.5% to 11.80 cents per security

NTA increased 12.7% to \$1.22 per security

Total return to securityholders was 24%



eps INCLUDING REVALUATION INCREMENTS

eps NET OF REVALUATION INCREMENTS

distribution growth INCLUDING REVALUATION INCREMENTS

net tangible assets per security

total return for 2006

consistent increases  
in returns to securityholders

# chairman's letter

I am very pleased to report on another exceptional year for the Abacus Property Group. Abacus continues to profit from the successful implementation of its investment strategy, illustrated by impressive growth and continued increases in returns to securityholders.

Acquisition of more than \$530 million in property assets and expansion across all sectors of the business increased total assets under Abacus management by 47% to \$1.4 billion. Approximately \$440 million of these assets were acquired for new funds management initiatives which will provide considerable scope for growth over the years ahead.

- The Abacus Storage Fund is the product of a strategic alliance with industry expert Storage King. Launched in November 2005 with \$100 million of assets, by year end the value of the fund's portfolio had increased through acquisition and asset enhancement to over \$180 million.
- \$200 million of hotel assets were acquired for the proposed Abacus Hospitality Fund which now has five quality assets in prime waterfront and CBD locations. This fund is to be launched later in the year.

Assets of the Group itself were boosted by more than one-third through the merger with the Abacus Diversified Income Fund, completed with effect from 31 March 2006. The merger proposal received overwhelming support from the securityholders of both groups at meetings held in February, with approximately 99% of votes cast being in favour of proceeding. The expanded Group provides a strong platform from which to pursue future growth opportunities and generates a number of other important advantages, including possible inclusion in relevant Australian Stock Exchange indices over time.

In the context of a 66% growth in total equity of the Group over the year, through the merger and capital raisings, it is particularly pleasing to report steady growth in earnings, distributions and NTA per security:

- earnings per security rose 4% to 12.92 cents net of revaluation increments (a 50% increase to 24.22 cents if revaluations are included);
- distributions rose 3.5% to 11.80 cents per security; and
- net tangible asset backing per security increased 12.7% to \$1.22.

abacus property group has built on the strong platform established in previous years to post a record profit and significant growth across all sectors of our business



John Thame

Frank Wolf

David Bastian

Dennis Bluth

Malcolm Irving

Len Lloyd



The total return to securityholders for the year was 24% compared to 15% for the S&P/ASX 200 Property Trust Accumulation index.

These results show a strongly performing organisation producing excellent outcomes for our investors. They build on the strong platform established in previous years and reflect the consistent and successful execution of our strategy to continue the positive trends evident from the accompanying charts.

This year-on-year performance reflects the expertise, dedication and enthusiasm of the whole Abacus team.

In particular, the Group has benefited from a strong and stable leadership team over a long period. Mr David Bastian and Dr Frank Wolf formed Abacus in 1996 and have driven the growth of the business from manager of a single property trust ten years ago to a listed diversified property group with assets under management of over \$1.4 billion today.

While David will step back from day-to-day management of the business when he retires from the position of Managing Director at the end of September, he has accepted nomination to join the board as a non-executive director so the Group will continue to benefit from his knowledge and expertise. Frank will take over the role of Managing Director from 1 October, ably supported by the management team which was strengthened during the year with a number of senior appointments.

Ellis Varejes joined the Group in February 2006 as Director-Corporate and Legal Services after a ten year association with Abacus providing strategic advice and legal services. Formerly a senior corporate partner with a major Sydney law firm, Ellis will assume the role of Chief Operating Officer from 1 October.

Tom Hardwick joined the Group in April 2006 as Director-Funds Management. In his former role in investment banking, Tom was closely involved in the listing of the Group and institutional capital raisings undertaken over the past four years to support the growth of the business.

We also welcome Rod de Aboitz who took over from Sean O'Donoghue as Chief Financial Officer in mid-September. Rod joins Abacus from NM Rothschild (Australia) Limited and has extensive international financial services experience, including over 12 years with PricewaterhouseCoopers' banking and capital markets audit practice.

The future of the Group looks very positive. Our core property skills, capable management team and solid financial position provide a strong platform for the continued growth of the business and reliable and increasing returns to our securityholders.

I would like to take this opportunity to thank all members of the Abacus team for their efforts throughout a very busy and productive year, and to extend our thanks to Mr Phillip Green for his valuable contribution to the successful growth of the Group since May 2000. Mr Green resigned as a director of the Group effective from 1 September 2006 to focus on his other business commitments, which include his role as Managing Director of Babcock and Brown.

We would like to thank our securityholders and investors in our products for your continued support. We value the trust you place in us to preserve and grow your investment.

JOHN THAME  
Chairman

# the year in review

During a year of significant growth, the Group has maintained focus on our core objective of building capital value while providing a stable, growing distribution stream from recurrent earnings.

Acquisition of approximately \$530 million in property assets for the Group's investment portfolio and a series of funds management initiatives increased total assets under Abacus management by 47% to over \$1.4 billion.

Key acquisitions included:

- \$85 million of diversified assets for the Group's investment portfolio;
- \$180 million of self storage facilities for the Abacus Storage Fund;
- \$200 million of hotel assets for the proposed Abacus Hospitality Fund; and
- \$66 million of industrial, commercial and retail assets for our diversified income funds.

Total equity increased 66% to \$673 million, through capital raisings undertaken during the year, the merger with the Abacus Diversified Income Fund in March 2006, the revaluation of the property portfolio and growth in retained earnings.

Earnings per security rose 4% to 12.92 cents, net of revaluation increments (a 50% increase to 24.22 cents if revaluations are included). Distributions increased 3.5% to 11.80 cents per security and were fully funded by the Abacus Trust. At year end, retained earnings stood at \$96 million, an increase of 89%, and the net tangible asset backing per security was \$1.22, a 12.7% increase over 2005.

The security price at 30 June 2006 was 15.4% higher than that at 1 July 2005, providing a total return to securityholders of 24% over the full year.

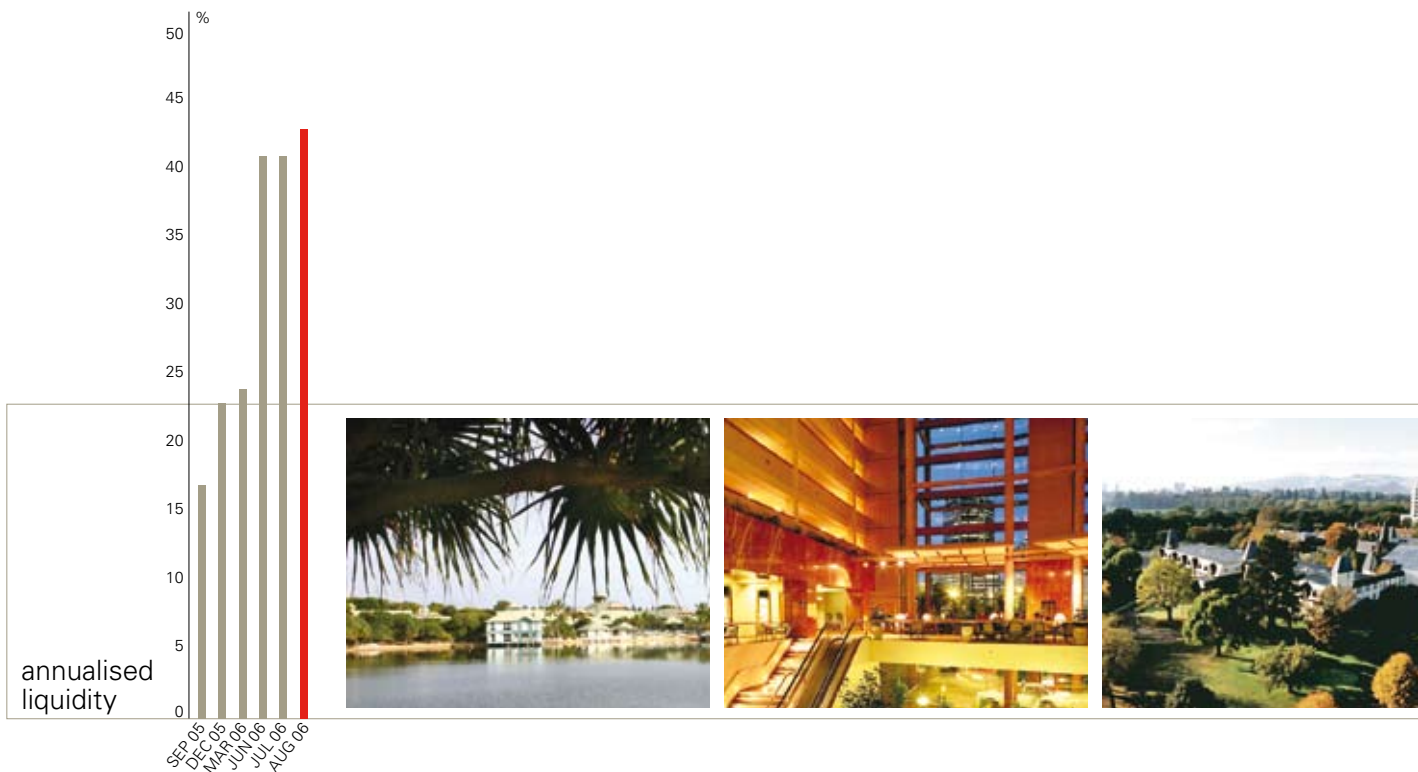
## abacus hospitality fund

The proposed Abacus Hospitality Fund will provide an opportunity for investors to participate in the Australasian hotel industry. The initial portfolio of the fund will include five hotel assets with prime waterfront or CBD locations which offer potential for earnings growth through increases in room rates and occupancy combined with reductions in operating costs.

HOTEL	LOCATION	ROOMS	MANAGER
The Carlton Hotel	Auckland	455	Rendezvous
Novotel Twin Waters	Sunshine Coast	374	Accor
Trade Winds	Cairns	245	Rydges
Rydges Esplanade	Cairns	242	Rydges
Chateau on the Park	Christchurch	193	Internal

Abacus is working with professional hotel managers, to maximise opportunities to optimise operating performance and capital value of the assets. This fund is expected to be launched later this year.





## Merger with Abacus Diversified Income Fund

The entities making up the Abacus Diversified Income Fund merged with the Abacus Property Group with effect from 31 March 2006. The merger boosted the total assets of the Group by over \$240 million, in particular increasing the size and diversity of the property portfolio across geographical location and property sector.

The greater size of the Group generates a number of important advantages:

- greater asset and income diversification, reducing investment risk for securityholders;
- a strong platform from which to pursue future growth opportunities with potential to reduce the cost of capital; and
- potential for increased liquidity of securities, leading to the likely inclusion of the Group in relevant Australian Stock Exchange indices.

## Capital structure

Total equity of the Group increased 66% to \$673 million, through capital raisings undertaken during the year, the merger with the Abacus Diversified Income Fund in March 2006 and the revaluation of the property portfolio.

An institutional placement undertaken in August 2005 raised \$55 million through the issue of securities at \$1.29, while a second institutional placement in February 2006 raised \$70.5 million at \$1.41 per security. Since balance date, the Group completed a Securityholder Purchase Plan which raised approximately \$20 million.

As a result of the increased equity and greater proportion of institutional investors on the register, there has been a continued improvement in liquidity of the Group's securities which, if sustained, is expected to qualify the Group for inclusion in relevant ASX indices, so raising our profile with a wider range of investors.

Capital raised from investors and via debt facilities was used to fund the acquisition of additional property assets, both for the Group and for new funds management initiatives ahead of raising equity from retail investors.

Gearing of the Group was 35% at year end. Approximately 65% of bank debt facilities were subject to fixed rate arrangements with a weighted average term to maturity of 6.3 years. Since year end, the Group has increased fixed rate coverage to 77%.

# the year in review

## Property portfolio

As a result of the merger, acquisitions and property revaluations, the total investment property portfolio of the Group was valued at approximately \$687 million at year end.

Comprising a mix of retail, commercial, industrial and hotel assets, occupancy across the total portfolio was up to 97% and the weighted average lease expiry (by income) was 4.7 years.

Assets acquired for the Group's investment portfolio totalled over \$85 million, including a \$36.6 million bulky goods/homemaker centre in Moorabbin, Melbourne settled in August 2006 and a neighbourhood shopping complex located in metropolitan Brisbane acquired for \$15.75 million in December 2005.

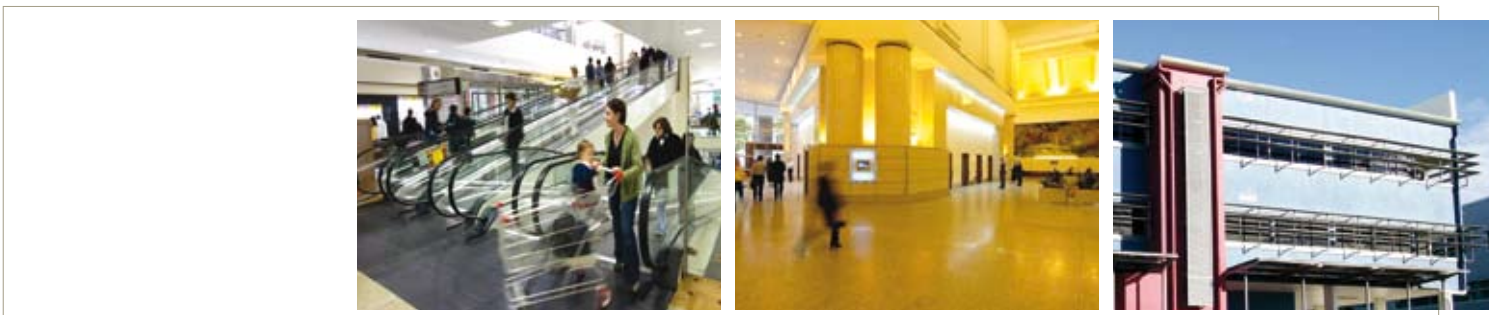
**Homemaker City:** This fully leased centre built in 2002 is located 16 kilometres south-east of the Melbourne CBD and occupies a 19,750 square metre site with a 140 metre frontage to the busy Nepean Highway. The highly visible two storey complex offers gross lettable area of approximately 13,977 square metres and on-site parking for 376 cars.

**Aspley Village Shopping Centre:** Located approximately 12 kilometres north of the Brisbane CBD, this centre currently offers a gross lettable area of approximately 3,690 square metres on a site of approximately 19,430 square metres.

Plans are currently being finalised to redevelop the older style shopping centre into a much larger new complex with a gross floor area of over 12,230 square metres, including a full-service Coles Supermarket occupying over 3,240 square metres and an expanded range of specialty shops plus undercover parking. The two freestanding childcare centres will be retained and the existing medical centre expanded.



novotel twin waters



Refurbishment programs were initiated at a number of major assets during the year. At Santos House, lifts are being upgraded and additional works to the entrance undertaken ahead of a major leasing program to cover the departure of Santos in July 2007.

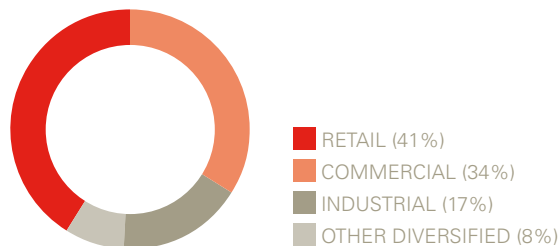
Cornerstone asset Ashfield Mall underwent a \$13 million refurbishment during the year, including replacement of the travelators and the addition of two lifts. Restructuring of major tenancies resulted in Woolworths Supermarket signing a 20 year lease over 3,800 square metres of space and Coles Supermarket agreeing to expand its tenancy and extend its lease for 20 years. At year end, the Mall was valued at \$113 million, a 14% increase over the year.

An application to develop residential units and 4,000 square metres of gross lettable area on properties acquired adjacent to the Mall was lodged in February 2006 and is currently being assessed by Council.

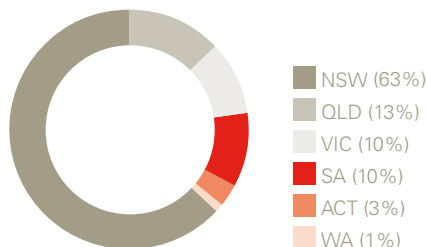
Abacus acquired two properties adjacent to Liverpool Plaza to provide flexibility in the future redevelopment of this shopping centre, including expansion of the net lettable area, increased parking and greater frontage to Macquarie Street. Refurbishment of the Plaza during the year supported a successful leasing program which resulted in renewals by major tenants and introduction of new tenants, including Westpac.

97%  
occupancy

The merger with the Abacus Diversified Income Fund in March 2006 added \$220 million of diversified direct property assets, generally valued in the range of \$5 million to \$20 million, to the Group. Included was a portfolio of small shopping centres held through a joint venture with Metcash Trading Limited, mostly located in regional areas of Queensland, NSW and Victoria and anchored by IGA supermarkets on long-term leases. The joint venture is 75% owned by the Group and now holds ten properties valued at \$55 million.



property portfolio diversification by sector\*  
Other diversified includes carpark, accommodation and pubs



property portfolio diversification by location\*  
Hotel assets designated for Abacus Hospitality Fund not included

# the year in review

## Funds management

The Group's funds management business was a major driver of growth over the year, increasing total assets under management to over \$1.4 billion and introducing new investment opportunities to our clients.

Products currently under management or in development include open-ended sector-specific funds and fixed-term project-specific funds. By utilising our core property skills and leveraging our balance sheet capacity, Abacus is able to provide a range of innovative products for our expanding client base and derive stable fee income from the provision of management services.

Approximately \$440 million of property assets were acquired through the year for a series of major funds management initiatives. These included:

- \$180 million of self storage facilities in Australia and New Zealand for the Abacus Storage Fund. This fund was launched in November 2005 and has attracted strong investor support with over \$60 million equity raised to date.

- \$200 million of hotel assets in Australia and New Zealand for the proposed Abacus Hospitality Fund. Combined with existing assets in the Group portfolio, this fund is expected to be launched later this year with total assets of around \$240 million.

Assets were also acquired for a new diversified property fund which is expected to be launched later this year with initial assets of around \$130 million. The new fund will focus on direct property with returns enhanced by active management of the assets and investment in property-backed mortgages, indirect property assets and listed property securities.

These three core funds management products provide considerable scope for growth.

## abacus storage fund

Launched in November 2005 with an initial portfolio of 16 facilities, the Abacus Storage Fund combines Abacus's financial strength and funds management expertise with the industry-specific skills of Storage King. An additional 12 facilities were acquired during the year, increasing total assets from approximately \$100 million to over \$180 million. The fund is now one of the largest owners of self storage facilities in Australia and New Zealand, with total land area of approximately 224,000 square metres and total net lettable area of approximately 125,000 square metres.

The facilities are well-located, generally on large sites in capital cities and major regional centres. Application of the Storage King branding and specialised management systems is expected to maximise operating performance of the facilities and expedite realisation of the significant growth potential within the current portfolio.

The additional facilities acquired will enhance returns to the fund's securityholders over time as occupancy increases and opportunities within the portfolio are realised.





Two special purpose funds launched in late June 2005 with combined assets of over \$58 million were marketed and fully subscribed during the year. The Abacus Retirement Living Trust will build retirement villages on two sites in Melbourne for strata subdivision and sale. The sites are in Brighton and Hampton, both prestigious residential suburbs located on Port Phillip Bay. Planning approval for both projects was achieved during the year. The Brighton accommodation will comprise 91 apartments, 197 carparks and 101 storerooms while the Hampton project will comprise 76 apartments with 75 storerooms, six townhouses and a total of 176 carparks.

The Abacus Wodonga Land Fund acquired 132 hectares of former Defence property in central Wodonga for subdivision and sale. An additional 41 hectares of adjacent land was acquired during the year providing considerable benefits to the overall project. The subdivision design provides 1100 residential lots, a primary school site, neighbourhood and community centres, service station facility, retirement village and specialised aged care facility and a bulky goods site. A rezoning application is currently before the planning authorities and earthworks are expected to commence in November 2006.

CORE PRODUCTS	SPECIAL PURPOSE FUNDS
Storage Fund	Wodonga Land Fund
Hospitality Fund	Retirement Living Trust
Diversified Income Fund	Mariners Cove Trust
	Hobart Growth Trust
	Crows Nest Property Trust
	Burnie Hospital

## Mortgages

The mortgage portfolio comprises loans to third parties, loans to build our funds management business, mortgages to Abacus associated developments and joint ventures and other mortgage investments.

Growth in the mortgage portfolio resulted from the merger with the Abacus Diversified Income Fund and an increase in the size of the Abacus's Mortgage Fund. Loans to third parties such as property developers and investors grew to \$123 million, of which one-third were secured by first mortgage. These loans have an average loan balance of approximately \$4 million and an average term of six months.

Loans were advanced to new funds management initiatives during the year, including the Abacus Storage Fund, to enable the acquisition of assets ahead of raising equity from retail investors. Funds were also advanced to existing schemes where Abacus is the responsible entity or has joint venture or other interests.

## Projects and other investments

Joint venture activities enable the Group to participate in a range of property investments that leverage Abacus's property skills and capital base through a network of strategic business partners with specialised industry sector and/or local market expertise. Transactions are typically structured to limit equity exposure and provide fee income from the provision of financial and project management services as well as profit participation.

These investments may create opportunities for other Abacus business units, including through mortgages for project finance and syndication of project elements for Abacus's retail investors.

# the year in review

## Outlook

2007 promises to be an exciting year for the Group. Abacus will continue to implement our proven business model to generate a stable, growing distribution stream from reliable recurrent earnings while building capital value through selective acquisition and strategic management of assets.

All four business units are expected to continue to perform strongly. The Group's network of strategic alliances will continue to provide access to our business partners' complementary skills and expertise as well as transaction flow. A pipeline of acquisition opportunities provides for the continuing growth of the Group's investment property portfolio and external assets under management. The current portfolio offers many opportunities to add value through active management, including through refurbishment and repositioning of assets, re-leasing programs, expansion of lettable area and subdivision and strata title.

The launch of the Abacus Hospitality Fund and the new diversified income fund will provide new investment opportunities for our clients and return capital to the Group for investment in new activities. Abacus's superior track record in funds management over our 10 year history has enabled us to build effective distribution channels through close relationships with over 1500 financial advisers and contribute to the investment objectives of over 11,000 clients.

Our core property skills and solid financial position provide a strong platform for continued growth of the business and reliable and increasing returns to our securityholders.

## highbett

Abacus acquired a 50% interest in an 11,000 m<sup>2</sup> site in south-east Melbourne in February 2004. A masterplan was developed for a neighbourhood shopping centre, 118 apartments and parking for 476 cars, with planning approval granted in October 2005. Sale of the property in December 2005 provided profit of \$2.2 million, reflecting a total return on equity of 64%.

## wodonga

The joint venture in Wodonga for the acquisition and subdivision of former Defence land has been partly funded by equity from retail investors and loans from Abacus. Over the life of the project, other opportunities may include the development of specific sites for syndication, providing acquisition opportunities for funds under Abacus management.

# corporate directory

## Abacus Property Group

Abacus Group Holdings Limited  
ACN 080 604 619  
Abacus Group Projects Limited  
ACN 104 066 104  
Abacus Funds Management Limited  
ACN 007 415 590 AFSL 227819  
responsible entity of  
Abacus Trust ARSN 096 572 128  
Abacus Income Trust ARSN 104 934 287

## Registry

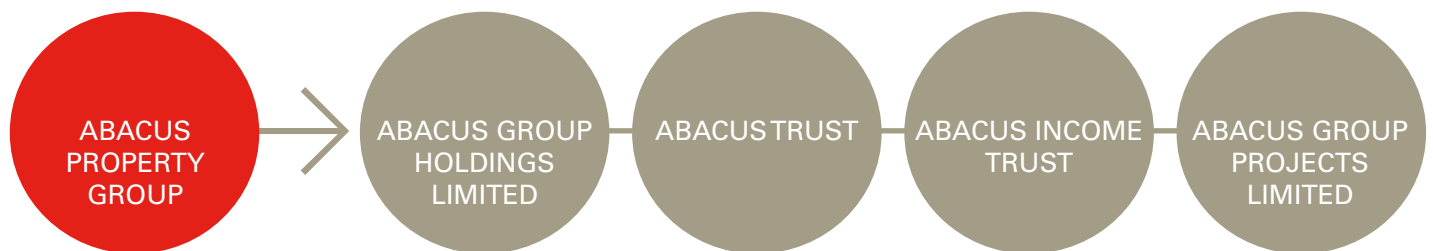
Computershare Investor Services Pty Ltd  
GPO Box 7045  
Sydney NSW 1115  
T 1300 855 080  
F 612 8234 5050

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E [enquiries@abacusproperty.com.au](mailto:enquiries@abacusproperty.com.au)

## about abacus property group

Abacus Property Group is a listed property investment group with a diversified business model. The Group's objective is to build capital value while providing a stable and growing distribution stream from recurrent earnings.



Abacus Income Trust and Abacus Group Projects Limited became part of the Group following the merger effected in March 2006. The securities of the four entities are stapled together and quoted jointly on the Australian Stock Exchange.

