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12 October 2009

Dear Investor

It is clear that since August last year, the property sector has gone through an extremely challenging time as a result of the global financial crisis. The Australian economy has been under pressure and property values have fallen dramatically all over the world. Credit markets have remained in turmoil and consequently lenders have restricted their activities and significantly increased their lending margins.

During this time Abacus has implemented a number of capital management initiatives to assist Abacus to withstand the oncoming challenges of the difficult economic environment and restrictive capital markets.

Most significantly, the Board prudently decided to undertake a capital raising to strengthen our balance sheet and provide financial flexibility to withstand the uncertain market conditions. Abacus raised over \$211 million early in 2009 through a placement and rights issue to new and existing securityholders. Funds raised were used to reduce gearing, placing Abacus in a stronger financial position to withstand the asset devaluation cycle.

The rights issue was structured to enable all securityholders to participate on equal terms, and to enable securityholders to lower the average cost of their securityholdings. For those securityholders that were not able to participate, the offer was made renounceable, so that they were able to sell their rights on the ASX.

We also sold or externalised \$123 million of assets during the year. Since then a further \$29 million of assets have been sold or are in advanced sale negotiations. Abacus has also revised and restructured its distributions to securityholders, which I will discuss later.

Funds realised from these initiatives and a strong focus on overhead efficiencies should continue to provide the financial flexibility required to combat the current asset devaluation cycle and to enable Abacus to take advantage of opportunities to grow as markets recover.

Unfortunately, even with these decisive measures, nothing could insulate us from the devastating impact of the financial crisis. Abacus' security price has consequently been severely impacted (along with the majority of stocks on the ASX and other exchanges around the world).

## **FY09 financial results**

Despite the difficult market conditions, the underlying profit for FY09 was \$72.0 million. This represented underlying earnings per security of 8.30 cents. The Group's statutory result was a loss of \$102.4 million, which takes into account unrealised non-cash fair value adjustments on the valuation of Abacus' investment portfolio and its fixed interest rate hedging contracts. Underlying profit therefore reflects the directors' assessment of the results of the ongoing operations of the Group.

The Group also generated strong underlying cash flows of \$65.6 million from operating activities, which adequately covered FY09 distributions of \$58.6 million

This is a positive result in these extraordinary circumstances.

<b>Summary Profit and Loss Statement</b>	<b>30 June 2009</b>
<b>Statutory net loss attributed to securityholders</b>	<b>(\$102.4m)</b>
Plus fair value adjustments on investment properties	\$107.5m
Plus fair value movement in derivatives	\$51.4m
Plus one-off impairment of ADIF II loan	\$11.0m
Plus other fair value adjustments	\$4.5m
<b>Underlying Profit</b>	<b>\$72.0m</b>
Underlying earnings per security	8.30cps
Distribution per security	7.75cps

As at 30 June 2009, Abacus had net assets of \$989.7 million, with net tangible assets per security of \$0.62.

<b>Summary Balance Sheet</b>	<b>30 June 2009</b>
Total Assets <sup>1</sup>	\$1,445.8m
Interest Bearing Debt	\$391.4m
Other Liabilities	\$64.7m
<b>Net Assets</b>	<b>\$989.7m</b>
NTA per security	\$0.62
Gearing <sup>2</sup>	26.6%
Covenant Gearing <sup>3</sup>	32.7%

1. The operational review set out on the next page allocated Total Assets to the Group's four businesses – Property, Funds Management, Joint ventures and Projects and Property Finance. Assets not allocated, totalling \$52.9m, are made up of cash, goodwill and deferred tax assets.

2. Gearing is calculated as Net Debt/Total Assets less Cash

3. Covenant Gearing is calculated as Total Liabilities/Total Tangible Assets

Following the capital raising and other capital management initiatives, gearing was reduced to 26.6% and covenant gearing to 32.7% at 30 June 2009. Abacus intends to target a long term gearing level of circa 30%, although it may increase gearing up to 35% over the short to medium term. All Abacus' financial metrics are within covenant limits.

## **Operational review**

### **Investment property portfolio**

- Property assets: \$896.8 million
  - Principal portfolio: \$798 million
  - Other property assets: \$98.8 million
- Occupancy 90%
- Like for like rent growth 3.5%
- Weighted lease expiry profile 4.8 years

The investment property portfolio delivered gross revenue of \$79 million and an EBITDA contribution of \$62 million. As a result of the difficult economic conditions occupancy fell to 90% from 94% in June 2008. During the last financial year Abacus has entered into or renewed leases over 44,000m<sup>2</sup> of space.

### **Funds management**

- Working capital loans and receivables: \$208.7 million
- Investment in funds: \$14.7 million
- External assets under management over \$1.0 billion

The funds management business contributed \$13 million to the Group's results. Performance was down on the prior corresponding period due to lower transactional activity and restructuring of funds. Abacus initiatives to restructure our existing funds are designed to better meet investor expectations in the current market.

### **Joint ventures and projects**

- Joint venture and investment assets: \$126.5 million
  - Joint venture investments: \$54.9 million
  - Loans to joint ventures: \$46.8 million
  - Investment in securities: \$24.8 million

The joint ventures and projects business generated \$20 million in earnings for the year. \$78.3 million of investments across 10 projects. Average project gearing is approximately 48%. Projects are not capital intensive and the portfolio is progressing well.

### **Property finance**

- Loan book 15 loans totalling \$146.2 million
- Majority of loans secured with first mortgages

As at 30 June 2009, property finance assets increased to \$146 million from \$137 million at 31 December 2008. This was largely as a result of capitalised interest or obligations due by existing borrowers. Interest and fee income for the year was \$13 million, after taking a provision of \$5.0 million. The loan book is tested for impairment every six months.

## **Strategy**

Our short-term strategy will be to maintain a conservatively geared balance sheet through the devaluation cycle and focus on increasing occupancy in its investment portfolio and the cash backed recurring earnings it provides.

Abacus will continue its strategy of acquiring properties that are core plus in nature to deliver enhanced returns. This philosophy has supported us well over the years and we have developed a proven track record as a principal investor. Abacus' experienced team identifies and delivers tailored capital growth strategies while ensuring cash backed earnings are achieved. We will also continue to focus on recycling invested capital and will continue to evaluate all of the assets on balance sheet and seek to dispose of those assets that are not core to the Group's future direction.

## **Distributions**

Abacus is targeting a distribution of three cents per security for the 2010 financial year assuming no adverse change to market conditions. Distributions will also be paid half yearly with the first distribution to be paid in February 2010 for the six-month period ending 31 December 2009.

The Board obviously regrets the reduction in the level of distributions, which is largely as a result of the dilutionary impact of the doubling of securities on issue following the one for one rights issue earlier this year. We believe our prompt action strengthened our balance sheet and provided a strong platform for future growth.

## **Outlook**

The economy is beginning to show encouraging signs of recovery although the property sector remains in a delicate condition. Business operating conditions are fragile and occupancy will continue to be under pressure. Some indicators suggest the worst of the asset devaluation cycle is behind us, but we remain cautious and are expecting some further softening in asset values in FY10.

Abacus has adequate headroom in relation to its lending covenants and remains cognisant of the need to maintain adequate balance sheet liquidity. We will continue to look to take advantage of acquisition opportunities for the next generation of core plus assets.

## **Our team**

Our team has worked hard in what has obviously been a difficult environment.

On behalf of all securityholders, the Board and I would like to thank Managing Director Frank Wolf, his executive team and all of our staff for their dedication and hard work this past 12 months. Abacus is now in a stronger position as a result of their efforts.

The Board is confident that Abacus has the depth and experience in management to best progress and accelerate through this continued period of uncertainty and emerge with a solid platform for continued growth as the Australian economy recovers.

**Abacus AGM**

I have pleasure in inviting you to the annual general meeting of Abacus Property Group to be held on Thursday, 12 November 2009. The enclosed Notice sets out the meeting details and the items of business. If you are unable to attend the meeting, you are encouraged to complete the enclosed proxy form and return it in the envelope provided or vote on-line by Tuesday, 10 November 2009. If you are attending the meeting, please bring your proxy form with you to assist with registration.

The meeting gives you an opportunity to ask questions about the Group's performance in 2009 and our current activities.

If you have not received a copy and would like the 2009 annual report, these are available through our website. You will find them under Investor Information at [www.abacusproperty.com.au](http://www.abacusproperty.com.au) or you can ask us to send a printed copy to you.

I hope to see you at the annual general meeting.

Yours faithfully



**John Thame**  
Chairman