



Explanatory Memorandum

In relation to a proposal to staple the securities of the
Abacus Storage Fund to the securities of Abacus Property Group
issued by:

Abacus Funds Management Limited (ACN 007 415 590, AFSL 227819)
responsible entity of Abacus Trust (ARSN 096 572 128)
and responsible entity of Abacus Income Trust (ARSN 104 934 287)

Abacus Group Holdings Limited (ACN 080 604 619)

Abacus Group Projects Limited (ACN 104 066 104)

Abacus Storage Funds Management Limited (ACN 109 324 834, AFSL 277357)
responsible entity of Abacus Storage Property Trust (ARSN 111 629 559)

Abacus Storage Operations Limited (ACN 112 457 075)

abacus property group and abacus storage fund

KEY DEFINED TERMS

In this document, the following terms have the meanings given below. For other definitions see the glossary in Section 13.

ABP	Abacus Property Group comprising Abacus Trust (AT), Abacus Group Holdings Limited (AGHL), Abacus Group Projects Limited (AGPL) and Abacus Income Trust (AIT)
AFML	Abacus Funds Management Limited
ASF	Abacus Storage Fund comprising Abacus Storage Property Trust (ASPT) and Abacus Storage Operations Limited (ASOL)
ASFML	Abacus Storage Funds Management Limited
Merged Group	The group that will result from Stapling the securities of AT, AGHL, AGPL, AIT, ASPT and ASOL to one another
New Stapled Security	Each New Stapled Security will comprise one AT unit, one AIT unit, one AGHL share, one AGPL share, one Restructured ASOL share and one Restructured ASPT unit

ABP securityholders currently hold ABP securities. The Merger will result in ABP securities being stapled to Restructured ASF securities to form New Stapled Securities traded on ASX with the name 'Abacus Property Group'.

ASF securityholders currently hold ASF securities. The Merger will result in ASF securities being consolidated to become Restructured ASF securities and then stapled to ABP securities to form New Stapled Securities traded on ASX with the name 'Abacus Property Group'.

PURPOSE OF THIS DOCUMENT

This is an important document and requires Your immediate attention. It should be read in full before You decide how to vote. If You are in doubt as to what You should do, You should consult Your financial, taxation or other professional adviser.

This document gives ABP securityholders and ASF securityholders details of the proposed Merger of Abacus Property Group and Abacus Storage Fund to form an expanded Abacus Property Group. It also explains other resolutions set out in the Notices of Meeting.

The expression 'Merger' describes the process to staple ASF securities to ABP securities so that they will be traded together on the ASX under the name 'Abacus Property Group'.

This Explanatory Memorandum also details the assets and liabilities, financial position and performance of the Merged Group and the rights and liabilities of New Stapled Securities.

This Explanatory Memorandum contains an investigating accountant's report by Ernst & Young Transaction Advisory Services Limited, a tax report by Greenwoods & Freehills Pty Limited and an independent expert's report by Lawler Corporate Finance Pty Limited.

Securityholders will be asked to vote on the proposed Merger. This Explanatory Memorandum contains important information to assist You in considering the Merger resolutions.

REGULATORY INFORMATION

This Explanatory Memorandum is dated 13 January 2012. It is a prospectus and a product disclosure statement issued by AGHL, AFML (as responsible entity of AT and of AIT) and AGPL in respect of ABP securities and issued by ASOL and ASFML (as responsible entity of ASPT) in respect of ASF securities. Each issuer takes full responsibility for the whole of this Explanatory Memorandum. This Explanatory Memorandum was lodged with ASIC on 13 January 2012.

Neither ASIC, ASX or their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

If the Merger is implemented, the ASF Entities will become stapled to the ABP Entities and the Merged Group will be admitted to the Official List of ASX. The ASF Entities will apply for quotation of ASOL shares and ASPT units on the ASX (as components of the New Stapled Securities) within 7 days after the date of this Explanatory Memorandum. The fact that ASX may agree to have ASOL shares and ASPT units quoted (as components of the New

Stapled Securities) is not to be taken in any way as an indication of the merits of the Merged Group or any of its constituent entities. If ASOL shares and ASPT units are not admitted to quotation (as components of the New Stapled Securities) within 3 months after the date of this Explanatory Memorandum, the Merger will not proceed.

This Explanatory Memorandum does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

DISCLAIMER

The information in this Explanatory Memorandum does not take into account the investment objectives, financial situation, tax position or needs of any particular ABP securityholder or ASF securityholder. It is important that ABP securityholders and ASF securityholders read the Explanatory Memorandum before making any voting or investment decision. In particular, in considering the prospects of the Merged Group, it is important for You to consider the risk factors identified in Sections 3.4, 4.4, and 9 of this Explanatory Memorandum that could affect the financial performance of the Merged Group. You should carefully consider the risk factors in light of Your particular investment objectives, financial situation, tax position and individual needs.

In assessing any historical information about any of the Merger Entities, You should be aware that past performance is no indication of future performance.

Please read all the documents carefully before deciding how to vote on the Merger resolutions and complete and return the enclosed proxy form if You are unable to attend the meetings in person.

Figures in this Explanatory Memorandum may be rounded.

FORWARD LOOKING STATEMENTS

To the extent this Explanatory Memorandum includes certain prospective information, this has been based on current expectations about future events. The prospective information is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations described in such prospective information. Factors which may affect future financial performance include, among other things, the risks identified in Sections 1, 3.4, 4.4 and 9 of the Explanatory Memorandum and other matters not currently known to, or considered material by, the ABP Entities or the ASF Entities.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. None of the ABP Entities or the ASF Entities, their officers, any person named in this Explanatory Memorandum or any person involved in the preparation of this Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on any such statements.

INCORPORATION BY REFERENCE

Information has been incorporated by reference in this Explanatory Memorandum from documents lodged with ASIC and the ASX respectively. Copies of the documents incorporated are available, without charge, at www.abacusproperty.com.au on the 'Investor Information' tab under the page titled 'ABP and ASF Merger' or through the internet from ASIC or ASX. The documents incorporated by reference in this Explanatory Memorandum are set out in the table below.

DOCUMENT	SECTION(S) INCORPORATED IN EXPLANATORY MEMORANDUM	DESCRIPTION
Abacus Property Book 2011	All	Details of ABP's Directly Owned Property
ASF Storage Assets	All	Details of ASF's storage asset portfolio

Each document incorporated by reference is current only as at the date of that document, and the incorporation by reference of those documents shall not imply that the affairs of ABP or ASF are unchanged since the date of those documents or that the information contained in them is current at any time after the date of the relevant document.

Any statement contained in a document incorporated by reference shall be deemed to be modified or superseded for the purposes of this Explanatory Memorandum to the extent that a subsequent statement contained in this Explanatory Memorandum or in another incorporated document modifies or supersedes that statement. The original statement shall not constitute a part of this Explanatory Memorandum except to the extent modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

ABP securityholders and ASF securityholders are advised to obtain and read the documents incorporated by reference before making their decision in relation to the Merger.

JURISDICTION

Only ABP securityholders and ASF securityholders with a registered address in Australia or New Zealand on the Stapling Record Date are eligible to participate in the Merger, and this Explanatory Memorandum is addressed only to them.

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings - Australia) Regulations 2008.

This offer and the content of the offer document are principally governed by Australian rather than New Zealand law.

There are differences in how securities are regulated under Australian law. In the main, the Corporations Act and Regulations (Australia) set out how the offer must be made.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If You need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle Your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If You are uncertain about whether this investment is appropriate for You, You should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If You expect the securities to pay any amounts in a currency that is not New Zealand dollars, You may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a securities market and You wish to trade the securities through that market, You will have to make arrangements for a participant in that market to sell the securities on Your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to You about the securities and trading may differ from securities markets that operate in New Zealand.

The dispute resolution process described in this offer document is only available in Australia and is not available in New Zealand.

ABACUS PROPERTY GROUP DISTRIBUTION REINVESTMENT PLAN (DRP)

If You are an ABP securityholder and You have elected to participate in the DRP, Your election will remain in place following the Merger unless You lodge a new election. If You are an ASF securityholder and You wish to participate in the DRP You will need to lodge an election form with the Registry. If the Merger is approved, an election form will be sent to ASF securityholders following implementation of the Merger.

CHAIRMAN'S LETTER

13 January 2012

Dear securityholders of Abacus Property Group and Abacus Storage Fund,

This Explanatory Memorandum is a proposal to merge Abacus Property Group (**ABP**) and Abacus Storage Fund (**ASF**) into a single listed A-REIT, and it describes the terms of the Merger in detail.

The Merger

How: The Merger will, if approved, be implemented by way of stapling ASF securities and ABP securities so that they will be traded together on the ASX as ABP.

Why: The Merger offers ASF securityholders liquidity for their investment through the opportunity to receive listed ABP securities and a Merger Distribution paid in cash. The Merger offers ABP securityholders the benefits of a diversification of assets underlying their investment and a larger contribution of recurring income streams through a significant self-storage asset portfolio.

What You get: If the Merger proceeds You will own New Stapled Securities comprising securities in ABP and securities in ASF. The number of New Stapled Securities that ABP securityholders and ASF securityholders will hold after the Implementation Date is calculated using the Merger Ratio.

Under the Merger Ratio:

- each ABP securityholder will hold one New Stapled Security for every pre-Merger ABP security they hold; and
- each ASF securityholder (other than ABP) will hold 0.538 New Stapled Securities for every pre-Merger ASF security they hold.

On implementation of the Merger, ASF securityholders will comprise 8.9% of Merged Group Stapled Securityholders while ABP securityholders will comprise 91.1% of Merged Group Stapled Securityholders.

If the Merger proceeds, each ASF securityholder (other than ABP) will also receive a Merger Distribution in cash of \$0.14 per ASF security, 8.7 cents of which will be a fully franked dividend and 5.3 cents of which will be a capital distribution.

Sale Facility

The Merger cannot be offered to securityholders whose address on the relevant securityholder register is outside Australia or New Zealand. A Sale Facility has been arranged for those securityholders. The New Stapled Securities they would otherwise receive under the Merger will be sold and they will instead receive their proportionate share of the proceeds of sale. Details of this facility are provided in Section 11.7 of the Explanatory Memorandum.

ASF securityholders who do not want to hold New Stapled Securities may also choose to participate in the Sale Facility.

Rationale for the Merger

ASF

ASF securityholders will become securityholders in a listed A-REIT with total assets of approximately \$2.1 billion and net assets of over \$1.1 billion (on a pro forma basis).

The Merger provides ASF securityholders with an exit strategy and the option to stay invested in the ASF portfolio (although in a diluted form) with exposure to a more substantial and more diversified property portfolio.

ASF securityholders (other than ABP) will receive New Stapled Securities and the Merger Distribution of \$0.14 per ASF security.

ABP

The Merger will give ABP securityholders exposure to one of Australasia's largest portfolios of storage assets valued at \$332m. The Merger will reweight ABP's asset portfolio to its target asset allocation ratio of approximately 70% Directly Owned Properties held for investment and 30% Other Property Assets by increasing Directly Owned Properties from approximately \$1 billion to over \$1.3 billion. The storage portfolio is expected to increase and strengthen ABP's recurrent income stream as the underlying cash flows of the storage assets have proven resilient in varying economic conditions, including through the recent global financial crisis.

ABP will issue approximately 37.6m securities at pro forma NTA and use approximately \$11m cash to implement the Merger.

Alternatives to the Merger

The ASF Directors have considered a number of alternatives to the Merger including an immediate sale of the ASF portfolio, a stand-alone listing of ASF, a deferred sale of the portfolio, a recapitalisation or third party merger and individual asset sales. However, these were not considered as attractive as the Merger.

Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio. The approach is incomplete, subject to the conduct of due diligence and uncertain. However the ASF Board has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the Meeting Date. If the ASF Board receives a sufficiently certain offer which is more attractive than the Merger, it may adjourn or discontinue the Merger meeting. However, absent such an offer the ASF Board intends to present the Merger proposal to ASF securityholders for their consideration. The ASF Board understands there are likely to be adverse tax consequences which would significantly impact the viability of the Merger if the meeting does not proceed as planned and the Kirsh Group subsequently increases its holding in ABP from its current holding of 39.2% to more than 40%.

What do the Independent Directors recommend?

The Independent ABP Directors have considered the advantages and disadvantages of the Merger and have concluded that the anticipated benefits of the Merger outweigh the possible disadvantages. The Independent ABP Directors recommend that ABP securityholders vote in favour of the Merger because they believe it is in the best interest of ABP securityholders, in the absence of a superior proposal.

The Independent ASF Directors have considered the advantages and disadvantages of the Merger and have concluded that the anticipated benefits of the Merger outweigh the possible disadvantages. The Independent ASF Directors recommend that ASF securityholders vote in favour of the Merger because they believe it is in the best interest of ASF securityholders, in the absence of a superior proposal.

The ABP Directors are required by law to act in the best interests of ABP securityholders. The ASF Directors are required by law to act in the best interests of ASF securityholders. The Merger involves a balancing of the relative interests of each set of securityholders. A potential for conflict arises in this case because the majority of the ABP Directors are also ASF Directors. This potential conflict has been carefully considered by the Directors in assessing the Merger proposal. The Directors have taken a number of steps to address the potential conflict. These are detailed in Part A of Section 1. One of the key steps taken was to commission an Independent Expert's Report. The Independent Expert's conclusions are set out below.

Independent Expert's opinion

The Directors appointed Lawler Corporate Finance Pty Ltd to prepare an Independent Expert's Report. The Independent Expert has concluded that the Merger is "fair, reasonable and in the best interest" of ABP securityholders and "not fair, but reasonable and in the best interest" of ASF securityholders participating in the Merger offer. A copy of the Independent Expert's Report is in the Explanatory Memorandum. As this report is long and detailed a summary is also included in the Explanatory Memorandum.

Vote on the Merger

The Merger is subject to a number of conditions, including the approval of both ASF securityholders and ABP securityholders. The meetings to consider and, if appropriate, approve the Merger will be held in the Adelaide Room, Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney NSW 2000 at 10.00am Friday 24 February 2012.

The Directors encourage ABP securityholders and ASF securityholders to attend the Meetings and vote in favour of the Merger.

Further information

This Explanatory Memorandum contains important information about the Merger and I encourage You to read it carefully, and to obtain appropriate independent advice, before making Your decision and voting either in person or by proxy.

Yours faithfully



John Thame
Chairman
Abacus Property Group and Abacus Storage Fund

MERGER HIGHLIGHTS FOR ASF

The Independent ASF Directors recommend You approve the Merger.

ASF securityholders will receive:

- ☑ Listed securities
- ☑ Cash distribution of \$0.14 per ASF security
- ☑ Transaction at pro forma net tangible asset value
- ☑ Lower overall gearing
- ☑ Larger more diversified property portfolio
- ☑ Potential upside if New Stapled Securities trade closer to net tangible asset value
- ☑ Actual FY11 distributions to securityholders supported by pro forma Merged Group financials
- ☑ Continuity of management

The Merger will also result in:

- ▶ Exposure to ASX market trading with potential price fluctuations
- ▶ Exposure to diversified assets with broader general property market risks than the storage asset portfolio. Returns from storage asset portfolio will be shared with ABP securityholders
- ▶ A transaction that the Independent Expert has concluded is “not fair, but reasonable and in the best interest” of ASF securityholders
- ▶ ASF securityholders holding a lesser interest (8.9%) in the larger Merged Group
- ▶ Increased interest held by major securityholder as a result of the Kirsh Group’s current holding in ABP

We recommend that You read this Explanatory Memorandum in full. However, specific information for ASF securityholders can be found in:

- the key information for ASF securityholders in Part B of Section 1
- the Merger rationale for ASF securityholders in Section 4
- the information on ABP’s business in Section 7.1
- the information on the Kirsh Group (the Merged Group’s major securityholder) in Section 11.6
- the Sale Facility summary in Section 11.7
- the proposed changes to the ASF constitutions in Section 11.10.2

MERGER HIGHLIGHTS FOR ABP

The Independent ABP Directors recommend You approve the Merger.

ABP securityholders will receive:

- ☑ ASF securities giving access to one of Australasia's largest portfolios of self storage assets
- ☑ Larger more diversified property portfolio
- ☑ Greater revenue stability via larger recurring income streams
- ☑ Balance sheet reweighted to target ratio of 70% Directly Owned Properties and 30% Other Property Assets
- ☑ Transaction at pro forma net tangible asset value
- ☑ Actual FY11 distributions to securityholders supported by pro forma Merged Group financials
- ☑ Reduced overall cost of ASF debt and improved covenants and term

The Merger will also result in:

- ▶ Group Gearing increasing from approximately 27% to 33% (within the Group Gearing target of 30-35%)
- ▶ Nominal reduction in net tangible assets and underlying earnings based on pro forma Merged Group financial statements
- ▶ ABP securityholders having direct exposure to the business risks and rewards associated with storage operations
- ▶ ABP securityholders holding a 91.1% interest in the larger Merged Group
- ▶ A transaction that the Independent Expert has concluded is "fair, reasonable and in the best interest" of ABP securityholders

We recommend that You read this Explanatory Memorandum in full. However, specific information for ABP securityholders can be found in:

- the key information for ABP securityholders in Part C of Section 1
- the Merger rationale for ABP securityholders in Section 3
- the information on ASF's business in Section 7.2
- the proposed changes to the ABP constitutions in Section 11.10.1

KEY DATES

Event	Indicative Date
Record date for ASF distributions for the quarter ending 31 December 2011	31 December 2011
Record date for ABP distributions for the half year ending 31 December 2011	27 January 2012
Payment of ASF distribution for the quarter ending 31 December 2011	7 February 2012
Latest time and date to lodge:	10:00 am, 22 February 2012
<ul style="list-style-type: none"> Proxy forms for ABP securityholders' meetings and ASF securityholders' meetings Appointment of corporate representative for ABP securityholders' meeting and ASF securityholders' meeting Election by ASF securityholders to participate in Sale Facility 	
ABP securityholders' meetings and ASF securityholders' meetings	10:00 am, 24 February 2012
Last day of trading in existing ABP securities	27 February 2012
Last day to transfer existing ASF securities	
Commence trading in New Stapled Securities on a deferred settlement basis (ASX code: ABPDC)	28 February 2012
	5 March 2012
Merger Distribution record date	4:00 pm
Stapling Record Date	7:00 pm
Transfer of securities under Sale Facility to Sale Bank	As soon as practicable after 7pm
Last date for registration of transfers of existing ABP securities and existing ASF securities	
Implementation Date*	6 March 2012
Date on which new securities are issued	
Date on which ABP securities and ASF securities are Stapled together to form New Stapled Securities	
Commence despatch of holding statements for New Stapled Securities	
Payment of Merger Distribution	9 March 2012
Complete despatch of holding statements for New Stapled Securities	13 March 2012
Last day of trading in New Stapled Securities on a deferred settlement basis (ASX code: ABPDC)	
Payment of Abacus Property Group distribution for the period ending 31 December 2011	
Trading in New Stapled Securities on a normal T + 3 basis commences (ASX code: ABP)	14 March 2012
Issue of New Stapled Securities under Distribution Reinvestment Plan	
Last date for Sale Bank to sell New Stapled Securities on behalf of Foreign Securityholders and Selling ASF securityholders under the Sale Facility	21 March 2012
Last date for Sale Bank to pay the proceeds of the sale of New Stapled Securities to Foreign Securityholders and Selling ASF securityholders	28 March 2012

All times and dates following the date of the securityholder meetings are indicative only and may change because of reasons outside of the control of the Merger Entities.

*The Implementation Date may be deferred if all Merger conditions have not been satisfied by 6 March 2012.

Any changes to the above timetable will be announced to the ASX and notified to the ABP and ASF securityholders on the ABP website at www.abacusproperty.com.au.

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ATTACHMENT 4 - FEES AND OTHER COSTS

1 MERGER OVERVIEW

A WHAT IS THE MERGER?

QUESTION	ANSWER	REFER TO SECTION
What is the Merger?	<p>The Merger is a combination of ABP securities with ASF securities. If the Merger is implemented, ABP securities will be Stapled to ASF securities. ASF and ABP will operate as a combined group.</p> <p>Stapling involves the creation of a common investor base in ABP and ASF. After the Stapling, ABP securities and ASF securities can only be traded together as one New Stapled Security. A New Stapled Security will consist of one AT unit and one AGHL share, one AIT unit and one AGPL share, one Restructured ASPT unit and one Restructured ASOL share.</p>	5.1 to 5.2
What will You receive if the Merger proceeds?	<p>If the Merger proceeds You will own New Stapled Securities comprising securities in ABP and securities in ASF. The number of New Stapled Securities that ABP securityholders and ASF securityholders will hold after the Implementation Date is determined by the Merger Ratio.</p> <p>Under the Merger Ratio:</p> <ul style="list-style-type: none"> each ABP securityholder will hold one New Stapled Security for every one ABP security they hold before the Merger. each ASF securityholder (other than ABP) will hold 0.538 New Stapled Securities for every one ASF security they hold before the Merger. each ASF securityholder (other than ABP) will also receive a Merger Distribution of \$0.14 per ASF security held before the Merger (comprising an 8.7 cent fully franked dividend and a 5.3 cent capital distribution). This distribution will not be made if the Merger does not proceed. <p>ABP holds ASF securities. ABP will not receive either the Merger Distribution or securities under the Merger in respect of those ASF securities.</p>	5.3, 5.6 and 5.7
What is the commercial outcome of the Merger?	<p>The Merger is a significant transaction through which ASF will be merged into Abacus Property Group. To effect this:</p> <ul style="list-style-type: none"> ABP will issue approximately 37.6m new ABP securities at ABP pro forma net tangible asset value. ABP will use approximately \$10.9m cash (which is less than the notional duty cost had this transaction proceeded by way of a sale of the ASF storage asset portfolio to ABP); and ASF will issue new ASF securities at pro forma net tangible asset value. <p>On implementation of the Merger, ASF securityholders will comprise 8.9% of Merged Group Stapled Securityholders while ABP securityholders will comprise 91.1% of Merged Group Stapled Securityholders.</p>	3.1
What are the key drivers behind the Merger?	<p>From an ABP perspective, the Merger is a commercial property transaction which forms part of its funds management strategic review.</p> <p>From an ASF perspective, the Merger provides a liquidity event for ASF securityholders.</p> <p>The Independent ABP Directors and the Independent ASF Directors each recommend the Merger in the absence of a superior proposal.</p> <p>The Independent ABP Directors and the Independent ASF Directors consider that the stapling is an effective means of implementing the Merger by means of securityholder votes which will take effect on a single day rather than a protracted, uncertain and more costly process such as a takeover or asset sale. The stapling structure achieves a primarily scrip-based transaction, with the Merger Ratio determined on an NTA for NTA basis. From an ABP perspective, the Merger consideration involves primarily scrip with some cash. From an ASF perspective, the Merger allows receipt of listed securities and cash, but with the capacity to receive all cash by participation in the Sale Facility. The Independent ABP Directors and the Independent ASF Directors consider that the stapling structure is in the best interests of each set of securityholders.</p>	3.1 and 4.1

QUESTION	ANSWER	REFER TO SECTION
What are the key drivers behind the Merger? (continued)	<p>The Merger rationale for ABP securityholders is set out in Section 3.1 and for ASF securityholders is set out in Section 4.1. Alternatives considered to give ASF securityholders liquidity are set out in Part B of Section 1 under the heading “Were any alternative exit strategies considered for ASF securityholders?” The costs and synergies associated with the stapling process have been considered and factored into the pro forma financial analysis set out in Sections 6 and 10.</p> <p>Following the Merger, the Merged Group will operate as a group comprising 6 entities in a stapled structure which is familiar to both ABP securityholders and ASF securityholders. As part of the process, the boards of the Merger Entities will be streamlined and the Merger Entities will operate as a single co-ordinated economic group. It is expected this will reduce administrative complexities arising from maintaining the separate listed and unlisted stapled entities.</p>	3.1 and 4.1 6 and 10
What has the Independent Expert said?	<p>The Independent Expert has considered the Merger and concluded that the Merger is:</p> <ul style="list-style-type: none"> • “not fair but reasonable and in the best interest” for ASF securityholders; and • “fair, reasonable and in the best interest” for ABP securityholders. <p>A summary of the Independent Expert’s report is set out in Section 2.</p>	2 and Attachment 3
What will the Merged Group look like if the Merger proceeds?	<p>Following the Merger, the Merged Group will be a diversified property group listed on the ASX, with approximately:</p> <ul style="list-style-type: none"> • total assets of \$2.1 billion and net assets of \$1.1 billion; and • 424m New Stapled Securities on issue. <p>The Merged Group’s core business activities will be substantially the same as the activities of the existing ABP comprising:</p> <ul style="list-style-type: none"> • direct property investment including the ASF storage assets; • funds management (currently the subject of a strategic review) and Wholesale Third Party Capital Alliances; and • property ventures. 	8
What is the impact on distributions from the Merger?	<p>ABP does not provide distribution forecasts, reflecting that in each period, income may comprise a mix of more stable recurring income and profit from transactions which are less predictable and the timing of which may vary.</p> <p>The pro forma underlying profit of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF securityholders arising from the Merger itself.</p> <p>The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.</p> <p>ASF securityholders will also benefit from any income earned on the Merger Distribution.</p> <p>ASF securityholders will receive a quarterly distribution to 31 December 2011 from ASF, to be paid in February 2012. If the Merger is approved, ASF securityholders will receive New Stapled Securities in the Merged Group and be entitled to a distribution for the half year ending 30 June 2012, payable in August 2012. ASF securityholders will not be entitled to any distribution from ASF in the period between 1 January 2012 to the Implementation Date, other than the Merger Distribution.</p> <p>ABP securityholders will continue to receive distributions on a half yearly basis.</p> <p>Risk factors which might impact on the performance of ABP and ASF are set out in this Sections 1, 3.4, 4.4 and 9.</p>	3.2

QUESTION	ANSWER	REFER TO SECTION
How is the Merger Ratio determined?	<p>The Merger Ratio is based on the relative pro forma net tangible assets of ABP per security (inclusive of pro forma distribution adjustments and the adoption of AASB 10) and ASF per security at 30 June 2011.</p> <p>The pro forma net tangible assets of ABP have been written down to \$2.41 prior to the Merger as a result of recognising the distribution to ABP securityholders declared post 30 June 2011 and adopting AASB 10. AASB 10 recognises an immediate write down of the loan from ABP to AHF (which may be recoverable in full) and immediate recognition of the guarantee to ADIF II unitholders (even though the guarantee may not be called and any potential exposure is some years away). The ABP Board considers that this represents a conservative and fair basis of exchange.</p> <p>Ernst & Young has prepared an unqualified Investigating Accountant's Report on the pro forma financial statements which underpin the net tangible asset values of the Merger Entities.</p>	5.3 Attachment 1
What are the tax implications of the Merger?	<p>Greenwoods & Freehills Pty Limited has provided a taxation report on the general Australian taxation impacts of the Merger on ABP securityholders and ASF securityholders. The taxation report is set out in Attachment 2.</p> <p>In summary, there should be no immediate capital gains or income tax implications as a consequence of the Merger, but the cost base of Your securities will be affected. However, You should seek Your own taxation advice in relation to this proposal.</p>	Attachment 2
What are the conditions of the Merger?	<p>ABP and ASF have executed an Implementation Deed containing the various conditions to the Merger. These include:</p> <ul style="list-style-type: none"> ASIC and ASX issue or provide all consents, waivers and approvals necessary to implement the Merger; approval of the Foreign Investment Review Board for participation by the Kirsh Group in the Merger is received; approval of the Overseas Investment Office, New Zealand for participation by the Kirsh Group in the Merger is received; all other necessary government agency approvals are obtained; all third party consents, approvals and waivers necessary to implement the Merger are obtained; ASX approves the New Stapled Securities for quotation; ABP securityholders and ASF securityholders pass the resolutions by the requisite majorities required to implement the Merger, as set out in each Notice of Meeting; no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other legal restraint or prohibition preventing the Merger is in effect at 8:00 am on the Meeting Date; and no material adverse change in respect of the business, operations, financial condition or ability of ABP or ASF to perform their respective obligations under the Implementation Deed has occurred as at 6:00 pm on the day before the Meeting Date. <p>The ABP Board has capacity to terminate the Merger if ABP receives an alternative proposal that the ABP Board determines is superior to the Merger.</p> <p>The ASF Board has capacity to terminate the Merger if ASF receives an alternative proposal that the ASF Board determines is superior to the Merger.</p>	11
Who will the directors of the Merged Group be?	<p>If the Merger is approved, the directors of the Merged Group will be the current ABP Directors.</p>	8.5

QUESTION	ANSWER	REFER TO SECTION
How have the ABP Board and the ASF Board managed conflicts of interest?	<p>The ABP Directors are required by law to act in the best interests of ABP securityholders. The ASF Directors are required by law to act in the best interests of ASF securityholders. The Merger involves a balancing of the relative interests of each set of securityholders. A potential for conflict arises in this case because the majority of the ABP Directors are also ASF Directors.</p> <p>This potential conflict has been carefully considered by the directors in assessing the Merger proposal. The directors have taken a number of steps to address the potential conflict as follows:</p> <ul style="list-style-type: none"> • The directors have carefully and separately considered the position of each set of securityholders. The directors determined that the Merger satisfies the best interests of both ABP securityholders and ASF securityholders and that accordingly the directors could recommend the proposal to both ABP securityholders and ASF securityholders. Section 3 sets out why the directors believe the Merger is in the best interests of ABP securityholders. Section 4 sets out why the directors believe the Merger is in the best interests of ASF securityholders. • Recognising the potential for conflict, the directors also commissioned the Independent Expert to confirm independently whether the Merger is in the best interests of each set of securityholders. The Independent Expert has concluded that the Merger is: <ul style="list-style-type: none"> - fair, reasonable and in the best interest of ABP securityholders; and - not fair, but reasonable and in the best interest of ASF securityholders. • The directors have also sought legal, tax and accounting advice in connection with the Merger proposal. The tax advice is set out in Attachment 2. The Investigating Accountant's Report is set out in Attachment 1. • Myra Salkinder did not participate in the ABP Directors' or the ASF Directors' consideration of the Merger proposal having regard to the potential for conflict arising from her association with the Kirsh Group. 	
What is the Sale Facility?	<p>Foreign Securityholders will not receive securities in connection with the Merger (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility (described in Section 11.7). Foreign Securityholders will not be eligible to participate in the DRP for the ABP distribution covering the six month period to 31 December 2011. Distributions and sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque. At 21 December 2011, there was 1 Foreign Securityholder in ASF holding 0.109% of ASF securities and 32 Foreign Securityholders in ABP holding 0.708% of ABP securities.</p> <p>ASF securityholders may also elect to have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility, free of brokerage or other charges. There is no limit on the number of ASF securityholders or ASF securities which may participate in the Sale Facility.</p> <p>Participation in the Sale Facility is not available to ABP securityholders (other than Foreign Securityholders).</p>	11.7
How do I participate in the Sale Facility?	<p>Securities owned by Foreign Securityholders will be sold automatically. If You are an ASF securityholder, You can elect to participate in the Sale Facility by completing the Election Form attached to Your Notice of Meeting. If You choose this option, the Sale Bank will sell Your New Stapled Securities by way of a bookbuild process or in the ordinary course of trading on ASX at the best available price it can obtain. The sale price paid to You will be the price obtained for all New Stapled Securities sold by the Sale Bank divided by the number sold. You will not have to pay any brokerage or other expenses of the sale.</p>	11.7

B KEY INFORMATION FOR ASF SECURITYHOLDERS

QUESTION	ANSWER	REFER TO SECTION
What are the advantages of the Merger for ASF securityholders?	<p>If the Merger is implemented, ASF securityholders will benefit through:</p> <ul style="list-style-type: none"> a liquidity exit strategy which the ASF Board believes is preferable to other available alternative strategies. Exit strategies for ASF are likely to be difficult in the current economic climate. The Merger will allow ASF securityholders the opportunity to cash out all or part of their holdings by trading on the ASX following the Merger or through the Sale Facility; a Merger Distribution of \$0.14 per existing ASF security (other than ASF securities held by ABP), being a 8.7 cent fully franked dividend and a 5.3 cent capital distribution, paid in cash; lower overall gearing. The current level of gearing (approximately 53.6%) and the covenants attaching to debt in ASF significantly restrict its opportunities. ASF banking covenants become more onerous over time, with the loan to value ratio reducing from 55% to 50% and interest cover ratio increasing from 1.55x to 1.75x between the date of this Explanatory Memorandum and January 2013. This may require additional equity being sought which is likely to result in dilution to existing ASF securityholders (who do not participate in the capital raising). Further distributions may be cancelled or suspended to reduce bank debt. The Merger addresses this issue; for those who do not want to exit ASF at this stage, exposure to a larger more diversified portfolio of assets (including the ASF portfolio) with greater net tangible asset value and flexibility for future liquidity; benefits of greater diversification through exposure to the diversified assets of the Merged Group compared to ASF; potential upside if New Stapled Securities trade closer to the net tangible assets of the Merged Group (recognising that there is currently a significant discount between the price at which ABP trades on the ASX and the value of its underlying assets); and ASFML fee arrangements will remain in place after the Merger but will be internalised resulting in an alignment of interests and no fee leakage in respect of the ASFML fees. This means that the fees and costs previously payable out of ASF to ABP will, following the Merger, be payable to a company that is ultimately owned by You as the holder of a New Stapled Security. The Storage King fee arrangements will remain in place. Apart from management fees, the ASFML and Storage King fee arrangements include performance fees, sales management fees, termination fees and the potential recovery of reduced management fees, all of which are subject to certain conditions. If the Merger does not proceed then the ASFML fees will not be internalised. The ongoing fee savings resulting from the internalisation will not be significant given the 8.9% interest that ASF securityholders will hold in the Merged Group. However if the Merger does not proceed and alternative liquidity strategies are pursued, fees payable by ASF to third parties may be significant. 	4.2

QUESTION	ANSWER	REFER TO SECTION
Are there any disadvantages of the Merger for ASF securityholders?	<p>If the Merger is implemented, the potential disadvantages for ASF securityholders are:</p> <ul style="list-style-type: none"> • exposure to ASX market trading. The listing of ASF securities as part of the New Stapled Securities will enhance liquidity but will also expose investors to potential market volatility and price fluctuations. The value of the ABP securities being offered under the Merger may also decrease at any time after the date of this Explanatory Memorandum and before the Implementation Date, depending on the trading price of ABP securities. Section 5.4 describes the sensitivity of the Merger consideration to movements in the ABP security price and where to find current security price information. ASF securityholders will be advised of the current ABP security price at the start of the meeting or any adjourned meeting; • the diversified assets of the Merged Group, the majority of which comprise retail, industrial and commercial property, will provide the benefits of greater diversification. However, they will also expose ASF securityholders to broader general property market risks than the storage asset portfolio. The storage asset portfolio has provided relatively stable cash flows and a recurring income stream in varying economic conditions. ABP's income typically includes a mix of recurrent and transactional income; • the high gearing of ASF means that any increase in asset value will result in a higher return on equity for ASF securityholders (although this also involves higher risk). If storage assets increase in value at a greater rate than ABP's current portfolio, the higher return due to the higher leverage of ASF will be shared with ABP securityholders rather than exclusively benefiting ASF securityholders; • the fair market value of the Merger consideration of \$1.16 to \$1.22 per ASF security is less than the fair market value of an ASF security of \$1.24 to \$1.25 as determined by the Independent Expert. On this basis, the Independent Expert has concluded that the transaction is "not fair, but reasonable and in the best interest" for ASF securityholders; • prior to the Merger ASF securityholders as a whole control all of the votes in respect of ASF. The largest securityholder is ABP with 19.955%. The Merged Group will be significantly larger than ASF and the Merger will therefore result in a dilution of this voting power, with ASF securityholders as a whole holding only 8.9% of the votes in respect of New Stapled Securities; and • because the Kirsh Group currently holds a significant securityholding in ABP, the Merger will result in the Kirsh Group acquiring an equivalent percentage of ASF (i.e. up to 42.207% of ASF). ASF securityholders will be asked to consider and vote on this as part of their consideration of the Merger. The Independent Expert has considered this in its report. Further information on the Kirsh Group and its intentions is set out below and in Section 11.6. 	4.3, 4.4 and 11.6

QUESTION	ANSWER	REFER TO SECTION
What are the key risks of the Merger for ASF securityholders?	<p>There are a number of key risks in relation to the ABP properties which are common to any property investment, such as fluctuations in income and value, changes to inflation and interest rates, declines in the demand for property and tenant defaults. These risks are outlined further in Sections 9.1 and 9.2.</p> <p>More specific key risks relating to the ABP portfolio are as follows:</p> <ul style="list-style-type: none"> • as ASF securities will become merged with ABP securities and quoted on ASX as part of the New Stapled Securities, the price of those securities will be subject to market movement and volatility which may or may not be referable to the underlying performance of the assets of the Merged Group. The share markets have been extremely volatile in recent times; • while the ABP portfolio is more diversified, it has a broader exposure to general property risks, including risks associated with property development, mortgage lending and funds management. ABP's income typically includes a mix of recurring and transactional income. This compares to the ASF portfolio which has provided relatively stable cash flows in varying economic conditions; • the value of the Merger consideration at any particular date will also be affected by movements in the ABP security price as described above and in Section 5.4; • the Kirsh Group currently holds a significant interest in ABP and has steadily increased this stake over time as permitted by the 3% creep rules of the Corporations Act. This stake may limit the potential for future security price increases or control premiums that might otherwise be payable on a takeover. Further, if the Kirsh Group acquires control of the Board or 50% or more of the Merged Group, it will be a review or default event under the Merged Group's banking facilities allowing the relevant banks to reconsider the provision of finance to the Merged Group. However, the Kirsh Group has indicated it will consult with the banks before triggering such an event. 	4.4
Were any alternative exit strategies considered for ASF securityholders?	<p>The ASF Board has for some time been considering exit strategies for ASF securityholders having regard to the objective of ASF to provide liquidity as contemplated in the ASF offer documents. In 2010, ASF securityholders approved an extension of the liquidity date from 2010 to 2013 to give the ASF Board further time in which to achieve a satisfactory liquidity outcome.</p> <p>The adoption of the Merger as the liquidity exit strategy will necessarily preclude other strategies. However, the ASF Board has reviewed a number of exit strategies and considered whether an exit strategy should be adopted now or in the short to medium term. The ASF Board believes that none of the alternative exit strategies are as attractive as the Merger. There is a limited window in which to implement the Merger as there are likely to be adverse tax consequence which would significantly impact the viability of the Merger if the meeting does not proceed as planned and the Kirsh Group subsequently decides to increase its holding in ABP from its current holding of 39.2% to more than 40%. Accordingly, the ASF Board believes the Merger should be adopted now.</p> <p>Relevant factors taken into account in considering alternative exit strategies were:</p> <ul style="list-style-type: none"> • fees: significant fees may become payable in future by ASF referable to performance and/or other exit strategies; • gearing: the current gearing of ASF is relatively high. Asset realisation proceeds may be adversely affected if ASF were forced to sell properties to meet bank debt covenant and/or repayment obligations; • recapitalisation: under current market conditions, a recapitalisation of ASF would be likely to be value dilutive to existing ASF securityholders (for those who do not participate in the capital raising). 	4.1

QUESTION	ANSWER	REFER TO SECTION
Were any alternative exit strategies considered for ASF securityholders? (continued)	<p>Alternative strategies considered, and the findings of the Independent Expert in relation to each of them, were:</p> <ul style="list-style-type: none"> • immediate sale: the immediate sale of the ASF portfolio. The Merger results in a higher range of values and reasonable certainty of outcome with less execution risk than an immediate sale of the ASF portfolio. The sale of the portfolio was also considered, assuming a sale in two parts over a 12 month period. This was determined to be an inferior outcome compared to the Merger; • separate listing: a stand-alone listing. This would create a sub-scale listed entity. The Merger results in a higher range of values compared to this scenario; • deferred sale: executing a sale of the entire portfolio in 2 years time (December 2013). The Merger results in approximately the same or a higher range of values other than in the scenario of strong storage asset value growth rates where the highest value of \$1.25 exceeds the upper end of the Merger fair market value consideration of \$1.22. However, this analysis ignores any potential value growth in the New Stapled Securities. Further, the Merger has reasonable certainty of outcome with less execution risk and less asset growth risk compared to this scenario; • recapitalisation or a third party merger of ASF: both these strategies were considered, but would have potentially resulted in significant value dilution and may not provide an immediate exit strategy; and • selling all assets individually or in small groups: the Merger results in a higher range of values, with the benefit of reasonable certainty of outcome and less execution risk. <p>Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio. See the Chairman's letter which addresses the ASF Board's proposed action on this proposal.</p>	4.1
What has the Independent Expert said?	The Independent Expert has considered the Merger and concluded that the Merger is "not fair but reasonable and in the best interest" for ASF securityholders.	2 and Attachment 3
Why is the Merger determined by the Independent Expert to be "Not Fair" for ASF securityholders?	<p>ASIC RG 111 in respect of a control transaction requires the Independent Expert to determine whether an offer is "fair" by comparing the fair market value of ASF securities (on a control basis) to the fair market value of the consideration offered to ASF securityholders under the Merger. This requires the Independent Expert to assess the fair market value of ABP securities offered under the Merger on a minority basis and the cash component at its face value.</p> <p>The fair market value of ASF on a control basis is based on its net asset value on a going concern basis (further adjusted for change of control costs). The fair market value range as determined by the Independent Expert on this basis is \$1.24 to \$1.25. However this value range does not:</p> <ul style="list-style-type: none"> • allow for some exit fees or asset realisation fees that ASF may incur on an exit strategy. These fees include performance fees, sales management fees, agents' fees and potential recoupment of reduced management fees. The extent to which these fees can be charged by ASFML will depend on the exit strategy and specified conditions. These fees are considered in the "reasonableness" test by the Independent Expert and some are factored into the alternative strategy scenarios; • take account of any capital requirements or any particular circumstances facing ASF such as its high gearing level relative to the AREIT sector, which may require future recapitalisation; • allow for the disparity in value caused by the unlisted status of ASF compared to the listed status of ABP. 	2 and Attachment 3

QUESTION	ANSWER	REFER TO SECTION
Why is the Merger determined by the Independent Expert to be "Not Fair" for ASF securityholders? (continued)	<p>The Independent Expert has determined that the fair market value of the Merger consideration per ASF security is between \$1.16 to \$1.22 comprising:</p> <ul style="list-style-type: none"> the value entitlement portion of a New Stapled Security (on a minority basis) of between \$1.02 to \$1.08. This is based on an assumed ABP trading price range of \$1.90 to \$2.00 which is then multiplied by the Merger Ratio of 0.538; plus The Merger Distribution of \$0.14. <p>The Independent Expert has determined that the Merger offer is "not fair" because the fair market value of an ASF security (on a control basis) of \$1.24 to \$1.25 is more than the fair market value of the Merger consideration of \$1.16 to \$1.22 based on an assumed ABP share price range of \$1.90 to \$2.00.</p> <p>The 30 day VWAP for an ABP security as at 11 January 2012 was \$1.95.</p>	2 and Attachment 3
Why is the Merger determined by the Independent Expert to be "Reasonable and in the Best Interest" for ASF securityholders?	<p>Although the Merger offer has been determined to be "not fair" for ASF securityholders, it has been determined to be "reasonable and in the best interest" primarily because the advantages of the Merger outweigh the disadvantages of the Merger. Key findings of the Independent Expert include:</p> <p>Advantages</p> <ul style="list-style-type: none"> the fair market value of the Merger consideration is above the values for most of the alternative exit strategies available to ASF other than a high asset growth strategy with asset realisation two years away (December 2013) where the highest value of \$1.25 exceeds the upper end fair market value of the Merger consideration of \$1.22. However, this analysis ignores any potential value growth in the New Stapled Securities. Further, there is reasonable certainty of outcome with less risk under the Merger compared to the alternate strategies; lower gearing in the Merged Group compared to ASF; there is no market for trading in ASF securities and the ASF liquidity facility is unavailable; on the basis that FY12 distributions of each of ABP and ASF would not change from FY11 distributions, the ASF securityholders would be better off in terms of equivalent income per ASF security; the Merger Ratio approximates the relative contributions of pro forma balance sheet NTA of ASF and ABP; the equivalent pro forma net assets and net tangible assets per New Stapled Security plus the Merger Distribution received under the Merger per ASF security totals \$1.49 to \$1.43 respectively. This exceeds the pro forma NAV of \$1.29 per ASF security; and there is upside for ASF securityholders if the New Stapled Securities trade closer to the Merged Group's NTA and/or NAV. <p>Disadvantages</p> <ul style="list-style-type: none"> exposure to non storage assets; exposure to share market volatility via the listed New Stapled Securities; and the fair market value of the Merger consideration is at a discount to the fair market value of an ASF security as determined by the Independent Expert. 	2 and Attachment 3

QUESTION	ANSWER	REFER TO SECTION
How is the Merger consideration for ASF securityholders affected by movements in the ABP security price?	Since the Merger consideration is primarily based on a fixed number of ABP securities, the value of the Merger consideration for ASF securityholders on implementation will depend on the price that the New Stapled Securities trade at on and after implementation of the Merger. The price of New Stapled Securities will vary in the future based on market conditions and any changes in the Merged Group's circumstances.	5.4
What interest will the major securityholder have following the Merger?	<p>The Kirsh Group is a privately held investment group founded by Mr Nathan Kirsh with substantial international business interests. The Kirsh Group assisted in a recapitalisation of ABP in 2009 following the GFC, initially through a private placement and subsequently through the sub-underwriting of a rights issue. Since then, the Kirsh Group has increased its stake on a regular basis through the exercise of its rights under the 3% creep provisions of the Corporations Act and through participation in the DRP.</p> <p>The Kirsh Group currently holds a 39.207% relevant interest in ABP. If the Merger does not proceed, the Kirsh Group would be entitled in the next 6 months to increase its holding to 42.207%.</p> <p>Because the Kirsh Group holds more than 20% in ABP, the Corporations Act deems that it holds a relevant interest in any securities held by ABP. As ABP currently holds 19.955% of ASF, the Kirsh Group also has a relevant interest of 19.955% in ASF.</p> <p>If the Merger proceeds, the Kirsh Group will (on implementation) hold a relevant interest in 35.735% of the New Stapled Securities. In short, the Merger will dilute the Kirsh Group's interest in ABP from 39.207% to 35.735% while increasing its interest in ASF from 19.955% to 35.735%.</p> <p>The Merger ultimately involves the Kirsh Group increasing its relevant interest by 15.78 % in ASF. This increase requires approval by ASF securityholders under the Corporations Act.</p> <p>In addition, the Kirsh Group has indicated it would not view the Merger favourably if the Merger would disadvantage it by precluding it from acquiring the same percentage interest in the Merged Group as it is currently entitled to purchase in ABP. Accordingly, ASF securityholder approval is sought to allow the Kirsh Group to purchase New Stapled Securities in the 6 months following implementation of the Merger to allow the Kirsh Group to increase its voting power to up to 42.207% of the Merged Group (as it currently would be entitled to do in respect of ABP if the Merger were not effected).</p> <p>If this approval is not obtained, the Merger cannot proceed.</p>	11.6

QUESTION	ANSWER	REFER TO SECTION
What are the Kirsh Group's intentions?	<p>The Kirsh Group has advised ABP that its present intention is to be a long-term strategic investor in ABP and that it may wish to further exercise its rights under the creep provisions and DRP participation.</p> <p>The Kirsh Group currently has no ability or intention to change the composition of the ABP Board or the ASF Board or the management or nature of the business of ABP or ASF, but reserves the right to review its intentions in the future.</p> <p>If the Kirsh Group acquires control of the ABP Board or 50% or more of the Merged Group, it will be a review or default event under the Merged Group's banking facilities allowing the relevant banks to reconsider the provision of finance to the Merged Group. However, the Kirsh Group has indicated it will consult with the banks before triggering such an event.</p> <p>The Kirsh Group has stated that it:</p> <ul style="list-style-type: none"> currently intends that ABP and ASF will be combined into the Merged Group as described in this Explanatory Memorandum but will otherwise continue to operate in their present forms; does not currently intend that any major changes be made to the operation or management of ASF; does not currently intend to inject further capital into ASF (other than to the extent they may elect to participate in the DRP); and does not intend to significantly change the financial or dividend policies of the Merged Group. Distributions are currently payable quarterly out of ASF but following the Merger distributions out of the Merged Group will be made 6 monthly to align with the current ABP distribution regime. <p>The Kirsh Group has stated that it has no specific intention to acquire additional New Stapled Securities in the six months following the Merger, but would like to retain the flexibility to do so, as it currently has with ABP. Any decision to purchase New Stapled Securities will be assessed at the relevant time with reference to the then-current trading price. The Kirsh Group currently intends to participate in the DRP following the Merger.</p>	11.6.2
What is the Independent Expert's opinion?	The Independent Expert has determined that the acquisition by the Kirsh Group of up to 42.207% following the Merger is not fair but reasonable and in the best interest for ASF securityholders.	2
What resolutions of ASF securityholders are required for the Merger to proceed?	<p>The resolutions that ASF securityholders must approve in order for the Merger to proceed are:</p> <ul style="list-style-type: none"> Resolutions 1 and 2: Approval to split ASOL shares and ASPT units; Resolutions 3 and 4: Approval to amend the constitutions of the ASF Entities to give effect to the Merger and to otherwise make these constitutions consistent with the constitutions of the ABP Entities (other than as to fees). Subject to ABP securityholders approving the Merger by passing resolutions 7 to 10 in the ABP Notice of Meeting, resolutions 3 and 4 if approved will result in amendments to the constitutions of the ASF entities to allow for the reallocation of capital between stapled entities and buy-backs; Resolutions 5 and 6: Approval to consolidate ASOL shares and ASPT units; and Resolutions 7 and 8: Approval under item 7 of section 611 of the Corporations Act for the acquisition by the Kirsh Group of a relevant interest in ASF securities resulting from the Merger and a relevant interest of up to 42.207% in ASF securities in the 6 month period following the Merger. 	11 Notice of Meeting

C KEY INFORMATION FOR ABP SECURITYHOLDERS

QUESTION	ANSWER	REFER TO SECTION
What are the advantages of the Merger for ABP securityholders?	<p>If the Merger is implemented, ABP securityholders will benefit through:</p> <ul style="list-style-type: none"> • exposure to one of Australasia's largest portfolios of storage assets. This is a significant portfolio in an asset class ABP has managed for the last 6 years; • increased asset scale through access to ASF's storage asset portfolio valued at \$332m. This reweights the Merged Group's balance sheet to the targeted ratio of 70% Directly Owned Properties and 30% Other Property Assets respectively to achieve ABP's preferred balance of recurrent and other income; • ABP is obtaining exposure to the ASF portfolio by effectively issuing securities at pro forma NTA of \$2.41 per ABP security which is above the recent trading prices of ABP securities. However, the \$2.41 also represents: <ul style="list-style-type: none"> - a 5% discount to the \$2.54 pro forma NAV; and - a discount of 0.8% to 5.5% on the Independent Expert's fair market value of an ABP security of \$2.43 to \$2.55 (on a control basis). <p>These discounts are small compared to some discounts applied in other market transactions over recent years;</p> <ul style="list-style-type: none"> • access to the underlying cash flows of the storage assets which have proven stable in varying economic conditions, including through the recent GFC, and have shown marginal increases since that time. This in turn should bolster the recurring income profile of ABP; • reduced overall cost of ASF debt and improved covenants and terms; and • the Independent Expert has concluded that the transaction is "fair, reasonable and in the best interest" for ABP securityholders. 	3.2
Are there any disadvantages of the Merger for ABP securityholders?	<p>If the Merger is implemented, the potential disadvantages for ABP securityholders are:</p> <ul style="list-style-type: none"> • pro forma Covenant Gearing will increase from approximately 31.6% to approximately 37.6%. This is within the 50% gearing requirement imposed by ABP's banks; • pro forma Group Gearing will increase from approximately 26.7% to 32.7%. This is within the Group Gearing target of 30-35%; • there will be a nominal decrease in 30 June 2011 pro forma NTA per New Stapled Security of \$0.02 from \$2.41 to \$2.39 due to the cash used for the Merger. However, this cash used is less than the notional duty had the Merger been transacted by way of sale of the ASF assets to ABP; and • there will be a nominal reduction in underlying EPS of 2% (from 19.4 cents to 19.0 cents) (based on the FY11 pro forma Merged Group income statement) in part due to tax payable by ASF because the U Stow It self storage assets are held by a company. 	3.3

QUESTION	ANSWER	REFER TO SECTION
What are the key risks of the Merger for ABP securityholders?	<p>There are a number of key risks in relation to properties which are common to any property investment. ABP securityholders are already exposed to these risks in the existing ABP property portfolio. They will now be exposed to those risks in the ASF storage assets.</p> <p>More specific risks relating to the ASF storage assets are as follows:</p> <ul style="list-style-type: none"> ASF owns both the freehold property and the self storage business. It does not merely collect rent from a tenant but rather it is exposed to the risk that the underlying self storage business performs poorly and the net operating income of the storage business declines; while the demand for self storage space has to date proven relatively stable through different economic cycles, there is a business risk that the demand for self storage space may decline or that there may be an over-supply of storage space in the future; all of the storage assets are operated by Storage King, with a majority of the management agreements due to expire in May 2015. Storage King is a third party and unrelated to the Merged Group. If Storage King were to cease business, or fail to operate the storage facilities properly or fail to renew the management contracts, there could be a loss in income, delays and costs associated with engaging a new operator; and the Merger increases Covenant Gearing from approximately 31.6% to 37.6% which reduces the headroom available against the bank gearing covenant of 50%. 	3.4
What has the Independent Expert said?	The Independent Expert has considered the Merger and concluded that the Merger is "fair, reasonable and in the best interest" for ABP securityholders.	2 and Attachment 3
Why is the Merger determined by the Independent Expert to be "Fair" for ABP securityholders?	In assessing the fair market value of an ABP security in accordance with RG111, ASIC has required the Independent Expert to value ABP securities on a minority basis. The Independent Expert has estimated the fair market value of an ABP security on a minority basis at between \$1.90 to \$2.00. On the basis that the fair market value of a New Stapled Security after the Merger will be equivalent to the assessed fair market value of an ABP security before the Merger, the Independent Expert has determined the Merger is fair for ABP securityholders.	2 and Attachment 3

QUESTION	ANSWER	REFER TO SECTION
Why is the Merger determined by the Independent Expert to be "Reasonable and in the Best Interest" for ABP securityholders?	<p>As the Merger is determined to be fair it is also then determined to be reasonable and therefore in the best interest of ABP securityholders. The Independent Expert gave consideration to other factors and these include:</p> <p>Advantages</p> <ul style="list-style-type: none"> the fair market value of the Merger consideration is \$1.16 to \$1.22 is less than the fair market value of an ASF security of \$1.24 to \$1.25; ABP will be effectively issuing securities at \$2.41 which is the pro forma net tangible asset value to gain exposure to the ASF storage portfolio at net tangible asset value. The \$2.41 NTA: <ul style="list-style-type: none"> represents a discount of 0.8% to 5.5% on the Independent Expert's fair market value of an ABP security of \$2.43 to \$2.55 (on a control basis). However, these discounts are small compared to some discounts applied in other market transactions over recent years; and is above recent ABP security trading prices; the ASF portfolio will bolster the recurring income of ABP; the Merger Ratio approximates the relative contributions of pro forma balance sheet NTA of ASF and ABP; and on the basis that FY12 distributions of each of ABP and ASF would not change from FY11 distributions, the ABP securityholders would be in the same position in terms of equivalent distribution per ABP security. <p>Disadvantages</p> <ul style="list-style-type: none"> ABP will use approximately \$10.9m cash which is less than the notional duty cost had this transaction proceeded by way of sale of the ASF assets to ABP. This will result in a nominal reduction in pro forma Merged Group NTA; an increase in gearing; and a nominal reduction in underlying EPS based on the pro forma Merged Group financial statements in part due to tax payable by ASF because the U Stow It self storage assets are held by a company. 	2 and Attachment 3
What resolutions of ABP securityholders are required for the Merger to proceed?	<p>The resolutions that ABP securityholders must approve in order for the Merger to proceed are:</p> <ul style="list-style-type: none"> Resolutions 7 - 10: Approval to amend the constitutions of the ABP Entities to give effect to the Merger. 	11 Notice of Meeting
What other resolutions are ABP securityholders being asked to approve?	<p>In addition to the resolutions required to implement the Merger, ABP securityholders are being asked to approve:</p> <ul style="list-style-type: none"> Resolutions 1 – 4: Approval to amend the constitutions of the ABP entities to allow for the reallocation of capital between stapled entities and buy-backs; and Resolutions 5 and 6: Approval to consolidate shares issued as part of the proposed reallocation of capital from AT and AIT to AGHL and AGPL. These resolutions will take effect, if passed, whether or not the Merger proceeds. 	11 Notice of Meeting

D OTHER ITEMS OF BUSINESS

QUESTION	ANSWER	REFER TO SECTION
What is the impact of the adoption of new accounting standards AASB 10 11 and 12?	<p>As part of the funds management strategic review, ABP gave consideration to the new accounting standards AASB 10, 11 and 12. As a consequence, in December 2011, ABP adopted the new accounting standards AASB 10, 11 and 12.</p> <p>The impact of the adoption of AASB 10 on ABP is that it alters the way in which ABP accounts for its managed funds. This will have a negative impact on reported net tangible assets but will not impact underlying earnings or cash flows of ABP. The impact of the adoption of AASB 10 on ABP is that pro forma NTA is reduced by 22 cents per ABP security comprising:</p> <ul style="list-style-type: none"> • a 12 cent reduction due to the ABP guarantee to ADIF II unitholders being re-measured as if the fund were wound up and the capital guarantee payable today, even though approximately 80% of the guarantee exposure (if any) would not be payable until the fund's actual wind up date of between 1 July 2016 and 30 June 2017 and approximately 20% of the guarantee exposure (if any) would not be payable until 2013; and • a 10 cent reduction due to the ABP working capital loan to Abacus Hospitality Fund being re-measured as if the fund were wound up today and a significant portion of the loan were not repaid, even though the loan is not repayable until March 2016. <p>These changes are accounting changes only and do not reflect that loans may be recoverable in whole or in part at a future date and/ or that the guarantees may not be payable. ABP's banks have agreed to provide the necessary consents for the Merger and have confirmed that banking covenants will not be affected by the Merger and the adoption of AASB 10.</p> <p>Further details of the adoption of AASB 10, 11 and 12 are set out in the ABP ASX release dated 8 December 2011.</p>	10.3

What other information is available?

Sections 11 and 12 contain other information in relation to the Merger including a description of the proposed changes to the constitutions of the ABP Entities and the ASF Entities, a summary of the Stapling Deed and Implementation Deed, details of the interests of directors and other relevant information.

If You have any further questions, You can contact the Registry on 1300 139 440 or abacus@boardroomlimited.com.au or visit Abacus Property Group's website at www.abacusproperty.com.au. Full details are provided in the Corporate Directory at section 14.



**Abacus Property Group
and
Abacus Storage Fund**

Independent Expert's Report

Report date: 9 January 2012

9 January 2012

The Directors

Abacus Property Group
Abacus Storage Fund

Level 34 Australia Square
264 – 278 George Street
SYDNEY NSW 2000

Dear Directors

**INDEPENDENT EXPERT'S REPORT
MERGER OF ABACUS PROPERTY GROUP AND ABACUS STORAGE FUND**

1 Introduction

Abacus Property Group ("**ABP**") is an internally managed, stapled entity, listed on the Australian Securities Exchange ("**ASX**"), providing exposure to a diversified portfolio of commercial, retail, and industrial property, mortgage investments and property development ventures and property funds management activities. ABP's market capitalisation as at 31 October 2011 was \$735 million. ABP owns and manages real estate assets in Australia and New Zealand worth more than \$2,200 million.

Abacus Storage Fund ("**ASF**") is an unlisted stapled entity. ASF is one of the largest participants in the Australasian self-storage industry and owns a diversified portfolio of 41 self storage facilities with 30 in Australia and 11 in New Zealand and one small commercial property, with a total value of approximately \$332 million.

ASF does not have any employees and is externally managed by Abacus Storage Funds Management Limited ("**ASFML**") that is the Responsible Entity for the Abacus Storage Property Trust ("**ASPT**"), being one of the stapled entities. ASFML is ultimately wholly-owned by ABP. Day-to-day management of the self storage facilities is outsourced to the Storage King group of companies, Australasia's largest self storage operator.

The Directors of ABP and ASF have requested this report to assist them in assessing and making a recommendation in relation to the Merger proposal, as summarised below. The Directors believe that obtaining an independent expert's report of this nature is important to assist in the management of conflicts of interest which exist in this circumstance due to the fact of there being substantially common directorships on the boards of ABP and ASF.

2 Merger

It is proposed that:

- ABP and ASF will become merged as a stapled entity ("**Merged Group**") by way of stapling their respective securities ("**New Stapled Securities**"); and
- Calculator Australia Pty Limited, as trustee of Calculator Australia Trust, and KiFin Limited ("**Kirsh Group**") be granted approval to increase their relevant interest in ASF securities from the current 19.955% up to 42.207% in the six month period following the merger ("**Kirsh Proposal**"),

(together, the "**Merger**").

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The Kirsh Group is the largest security holder in ABP, with a relevant interest of 39.207%. ABP is the largest security holder in ASF, with a relevant interest of 19.955%. Under the Corporations Act 2001 (Cth) ("**Corporations Act**"), the Kirsh Group is deemed to have a relevant interest in ASF equal to ABP's existing relevant interest and accordingly, also has a relevant interest of 19.955% in ASF. However, as far as ABP and Lawler Corporate Finance Pty Limited ("**LCF**") are aware, the Kirsh Group and its associates do not hold any ASF Securities.

In summary, under the terms of the Merger, existing ASF security holders other than ABP ("**Participating ASF Securityholders**") will be offered approximately 0.538 New Stapled Securities plus 14 cents cash (the "**Merger Distribution**") for each ASF Security held. The allocation of New Stapled Securities in the Merged Group will be by way of a ratio (known as the "**Merger Ratio**") (refer Section 8 below).

If the Merger is implemented:

- Participating ASF Securityholders would acquire securities in the entities comprising ABP (via the stapling process), while retaining reduced percentage interests in the securities of the entities comprising ASF. Participating ASF Securityholders collectively would move from owning 80.045% of ASF to owning 37.6 million New Stapled Securities (approximately 8.9%) in the Merged Group, plus they receive a cash amount totalling \$9.8 million;
- existing ABP security holders ("**ABP Securityholders**") would acquire securities in the entities comprising ASF (via the stapling process), while retaining reduced percentage interests in the securities of the entities comprising ABP. ABP Securityholders collectively would move from owning 100% of ABP to owning approximately 91.1% of the New Stapled Securities in the Merged Group; and
- the Kirsh Group will hold a relevant interest of 35.735% in the New Stapled Securities in the Merged Group (that is, in each of the entities comprising ASF and ABP), and will be allowed to increase their relevant interest and voting power up to 42.207% of the New Stapled Securities in the Merged Group in the six months following the Merger (i.e. the Kirsh Proposal).

Details of the Merger are set out in the Explanatory Memorandum accompanying the Notices of Meetings ("**Notices of Meeting**") to be sent to respective shareholders and unit holders ("**Securityholders**") in each relevant entity comprising ABP and ASF ("**Documents**").

The Merger is subject to the approval of the various resolutions set out in the Notices of Meeting by the Securityholders of each relevant entity comprising ABP and ASF that are not precluded from voting ("**Non-associated Securityholders**") and certain regulatory and other conditions being satisfied.

3 Independent expert's report

3.1 Requirement for an independent expert's report

3.1.1 The Merger generally

LCF understands as follows:

- because of the structure adopted to implement the Merger (that is, by way of a stapling arrangement) the Merger will be implemented simply via a vote of the Non-associated Securityholders in each of ABP and ASF;
- the Corporations Act requires that an independent expert's report ("**IER**") be provided to ABP or ASF Securityholders only in relation to the Kirsh Proposal and not the other aspects of the Merger;

- there is no other regulatory requirement for an IER in relation to the Merger, such as under the ASX Listing Rules ("**Listing Rules**");
- in regard to voting on the various resolutions:
 - ABP resolutions – there are no Securityholders (including Kirsh Group and its associates) that are precluded from voting on any resolution; and
 - ASF resolutions:
 - all ASF Securityholders (including ABP and Kirsh Group (if Kirsh Group held any ASF Securities)) may vote on all resolutions other than those dealing with the Kirsh Proposal; and
 - in relation to the resolutions dealing with Kirsh Proposal, all ASF Securityholders (including ABP) other than the Kirsh Group (if Kirsh Group held any ASF Securities), would be entitled vote on these resolutions.

3.1.2 The Kirsh Proposal

As the Merger is proceeding by way of stapling the securities of ABP and ASF, the Kirsh Proposal requires approval by ASF Securityholders other than the Kirsh Group and its associates ("**Non-associated ASF Securityholders**"). However, as far as ABP and LCF are aware, the Kirsh Group and its associates do not hold any ASF Securities.

It is noted that if the Merger proceeded by way of a takeover of ASF by ABP, then the matters addressed under the Kirsh Proposal would not require separate approval by Non-associated ASF Securityholders.

There are two inter-conditional elements to the Kirsh Proposal:

- the Kirsh Group increasing their relevant interest in ASF from the current 19.955% to 35.735%, as a result of the Merger; and
- the Kirsh Group being permitted to increase their relevant interest in ASF from 35.735% immediately following the Merger up to 42.207% in the six month period following the Merger.

With respect to the Kirsh Proposal, Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in voting securities of a listed company or managed investment scheme or an unlisted company with more than 50 members if the acquisition would increase a person's voting power in the entity:

- from 20% or below to more than 20%;or
- from a starting point that is above 20% and below 90%.

As a result of the Kirsh Group currently having a relevant interest of 39.207% in ABP, the Corporations Act deems that the Kirsh Group also has a relevant interest in ASF equal to ABP's existing relevant interest of 19.955% in ASF.

By stapling ASF and ABP Securities under the Merger, the relevant interest of the Kirsh Group in ABP will decline from 39.207% to 35.735% and in ASF will increase from 19.955% to 35.735%. This increase in relation to ASF would be prohibited under Section 606, unless approved by Non-associated ASF Securityholders under Section 611, Item 7 of the Corporations Act ("**Section 611**").

Further, for a period of 6 months following the Merger, the Kirsh Group would be prohibited from increasing their relevant interest in ASF (and therefore in the Merged Group) above 35.735%, as the 3% every 6 months "creep" provisions of the Corporations Act would not apply in that period. Again, any increase could be approved by Non-associated ASF Securityholders under Section 611.

Whilst Section 611 does not explicitly state that an expert opinion is required in relation to the resolutions of members dealing with proposals such as the Kirsh Proposal, Regulatory Guide 74 *Acquisitions approved by members* ("**RG 74**") issued by the Australian Securities & Investments Commission ("**ASIC**") states that it is the obligation of directors to provide members with full and proper disclosure.

This obligation may be satisfied by commissioning an independent expert to report on whether the proposal is "fair" and "reasonable" to the non-associated security holders, as those terms are defined in Regulatory Guide 111 *Content of expert reports* ("**RG 111**") issued by ASIC.

3.2 This Report

We note that in relation to the ABP resolutions, all ABP Securityholders are entitled to vote and therefore in preparing this Report our advice is to all ABP Securityholders.

In relation to the ASF resolutions, we note that ABP is entitled to vote on all ASF resolutions and Kirsh Group (if it holds any ASF Securities) is entitled to vote on all ASF resolutions except those dealing with the Kirsh Proposal.

In relation to the ASF resolutions, in preparing this Report we have concentrated on assessing the Merger from the point of view of the Participating ASF Securityholders (defined as those ASF Securityholders other than ABP).

In relation to the Kirsh Proposal and the ASF resolutions dealing with the Kirsh Proposal, we have addressed our opinion to Non-associated ASF Securityholders (defined as ASF Securityholders other than the Kirsh Group and its associates, if they hold any ASF Securities).

The directors of each of the various entities involved in the Merger ("**Directors**") have requested that:

- LCF prepare an IER so as to fulfil their duties as directors and ensure that the ABP Securityholders, Participating ASF Securityholders and Non-associated ASF Securityholders are given the necessary information to enable them to make informed decisions in relation to the Merger and Kirsh Proposal; and
- in preparing the IER and forming its opinions, LCF should meet analysis and disclosure standards comparable (as applicable to the Merger and the Kirsh Proposal, as appropriate) to requirements as if ABP and ASF were contemplating a scheme of arrangement and provide an opinion as to whether or not the Merger and Kirsh Proposal, as appropriate, is "fair" and "reasonable" to, and "in the best interest" of, (as those terms are defined in RG 111 (as applicable)):
 - Participating ASF Securityholders as a whole;
 - ABP Securityholders as a whole; and
 - Non-associated ASF Securityholders as a whole,
 and state the reasons for reaching those opinions.

Accordingly, this Report has been prepared by LCF to assist Directors in making their recommendation to the ABP Securityholders, the Participating ASF Securityholders and Non-associated ASF Securityholders and to assist those Securityholders in their considerations of whether or not to vote to approve the Merger, and in the case of Non-associated ASF Securityholders, in relation to the Kirsh Proposal.

This Report is intended to accompany the Documents to be provided by the Directors to the ABP Securityholders, the Participating ASF Securityholders and the Non-associated ASF Securityholders.

This Report should not be used for any other purposes or by any other party. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

3.3 Summary of Conclusions

Participating ASF Securityholders

In summary, our opinion is that the Merger is “not fair”, but is “reasonable” to, and “in the best interest” of, Participating ASF Securityholders, as a whole, in the absence of a superior proposal.

Non-associated ASF Securityholders

In summary, our opinion is that the Kirsh Proposal regarding the Kirsh Group increasing their holding in ASF is “not fair”, but is “reasonable” to, and “in the best interest” of, Non-associated ASF Securityholders, in the absence of a superior proposal.

ABP Securityholders

In summary, our opinion is that the Merger is “fair”, and therefore is “reasonable” to, and “in the best interest” of, ABP Securityholders, as a whole, in the absence of a superior proposal.

Our reasons for reaching these conclusions are summarised below.

4 Assessment of Merger for Participating ASF Securityholders

4.1 Summary of conclusions

In summary, our opinion is that the Merger is not "fair", but is "reasonable" to, and "in the best interest" of, Participating ASF Securityholders, as a whole, in the absence of a superior proposal.

4.2 Basis of assessment

In assessing the fairness of the Merger to Participating ASF Securityholders, we have followed the ASIC RG 111 procedure in respect of Control Transactions that requires the assessment of the value of an ASF Security on a control basis and the New Stapled Security comprising part of the Consideration offered for an ASF Security to be valued on a minority basis.

4.3 Value of an ASF Security

We have assessed the fair market value of an ASF Security, on a control basis, at between \$1.24 and \$1.25. This value is based on the net assets/net tangible assets of ASF as at 30 June 2011, (after various adjustments explained in the body of this report (refer Section 16)) and compares to the net asset/net tangible asset backing per ASF Security based on the audited financial statements of ASF as at 30 June 2011 of \$1.29 (after assumed conversion to equity of the ASF Abacus Working Capital Facility ("**ASF AWCF**") advanced by ABP to ASF (refer Section 12.9.5).

4.4 Value of a New Stapled Security

We have assessed the fair market value of a New Stapled Security on a minority interest basis as being equivalent to the assessed the fair market value of an ABP Security on a minority interest basis (refer Section 15.3). The value of ABP Securities on a minority interest basis has been determined with reference to recent volume weighted average market trading prices of between \$1.90 and \$2.00 per security (refer Section 11.12).

4.5 Value of Consideration offered for an ASF Security – Participating ASF Securityholder viewpoint

We have assessed the fair market value of the consideration offered for an ASF Security ("**Consideration**") from the viewpoint of a Participating ASF Securityholder at between \$1.16 and \$1.22.

This is based on the Merger Ratio, the value of New Stapled Securities on a minority interest basis and the face value of the Merger Distribution (i.e. the cash component of 14 cents).

Table 1 – Assessment of fair market value of the Consideration – Participating ASF Securityholder viewpoint

	Ref Section	Note	Low value	High value
Exchange ratio	2	A	1.86	1.86
Merger Ratio (Number of New Stapled Securities offered for each ASF Security)		B=1÷A	0.538	0.538
Value of one (1) New Stapled Security (minority basis) (\$)	11.12	C	1.90	2.00
Value of proportion of New Stapled Security for each ASF Security (minority basis) (\$)		D=BxC	1.02	1.08
Cash per each ASF Security (\$)	2	E	0.14	0.14
Total value of Consideration for each ASF Security (minority basis) (\$)		F=D+E	1.16	1.22

Source: LCF analysis

Numbers are rounded

4.6 Assessment of whether the Merger is “fair”

The assessment of fairness is as follows:

Table 2 – Participating ASF Securityholders – Assessment of whether the Merger is “fair”

	Ref	Note	Low value	High value
Value of an ASF Security (control basis) (\$)	Table 73	A	1.24	1.25
Total value of Consideration for an ASF Security (\$)	Table 2	B	1.16	1.22
Excess / (Deficiency) (\$)		C=B-A	(0.08)	(0.03)
Excess / (Deficiency) (%)		D=C÷A	(6.5)%	(2.4)%

Source: LCF analysis
Numbers are rounded

We have assessed the fair market value of an ASF Security on a control basis, to be \$1.24 to \$1.25. This compares to the assessed the fair market value of the Consideration offered per ASF Security of \$1.16 to \$1.22.

Based on the above analysis, the value of an ASF Security exceeds the value of the Consideration offered, by between 3 and 8 cents. Therefore, according to RG 111 guidelines, we conclude that the Merger is “not fair” to the Participating ASF Securityholders.

4.7 Assessment of whether the Merger is “reasonable”

As we concluded that the Merger is “not fair” to Participating ASF Securityholders according to RG 111 guidelines, we considered whether the Merger is “reasonable”. This involved an assessment of whether, in our opinion, there are sufficient reasons for Participating ASF Securityholders to accept the Merger despite it being “not fair”.

We have concluded that there are sufficient reasons for Participating ASF Securityholders to accept the Merger in the absence of any superior proposal. Therefore, in our opinion, while the Merger is “not fair”, it is “reasonable”.

A summary of the matters we considered is set out below.

4.7.1 Alternatives realistically open to Participating ASF Securityholders as a whole

In our opinion, there are no alternatives that are clearly superior to the Merger, and most are considered to be inferior. Only one alternative analysed (which assumes that ASF is liquidated and net proceeds are returned to ASF Securityholders in December 2013) indicates the possibility of superior returns (on a time and risk adjusted basis), but the ASF storage facilities properties would have to grow in value at a very high rate compared with historical experience.

We have been made aware that since announcing the Merger ASF has received a preliminary expression of interest in the ASF portfolio. The approach is incomplete, subject to the conduct of due diligence and uncertain. However, the ASF board has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the date of the Meetings. If the ASF board receives a sufficiently certain offer, which is more attractive than the Merger proposal, the impact of this and the conclusions in this Report may need to be revisited to take account of this expression of interest.

4.7.2 The financial impact of the Merger on Participating ASF Securityholders as a whole Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

On the basis that FY2012 distributions of each of ABP and ASF would not change from FY2011 distributions, analysis indicates that Participating ASF Securityholders would be better off in terms of equivalent income per ASF Security.

Net assets/net tangible assets per security

The pro forma net assets of the New Stapled Securities plus Merger Distribution (i.e. cash) received under the Merger per equivalent ASF Security currently held by Participating ASF Securityholders will increase by 15.5% and the net tangible assets will increase by 10.9%.

Gearing

The pro-forma Group Gearing¹ of ASF was 51.7% as at 30 June 2011.

If the Merger is implemented, the pro-forma Group Gearing of the Merged Group as at 30 June 2011 would be 32.7%.

Therefore, the Merged Group will be less highly geared than ASF, (each on a pro-forma basis).

4.7.3 Any other advantages and disadvantages of the Merger to Participating ASF Securityholders as a whole

Advantages

In our opinion, the Merger has a number of potential positive implications for Participating ASF Securityholders, including:

- liquidity of the listed New Stapled Securities;
- part cash Consideration;
- internalisation of management; and
- diversification of investment.

Disadvantages

In our opinion, the Merger has a number of disadvantages to Participating ASF Securityholders, including:

- Consideration is at a discount to fair market value of an ASF Security;
- increased volatility of listed New Stapled Securities; and
- exposure to non storage fund assets.

4.7.4 Implications for Participating ASF Securityholders of rejecting the Merger

In our opinion, the key implications for Participating ASF Securityholders of rejecting the Merger are as follows:

- ASF Securities will remain illiquid for some time;
- potentially slower rates of future growth of ASF; and
- externally managed investment model.

¹ Group Gearing is defined as net debt divided by total assets minus cash, excluding any impact of AASB 10.

4.8 Basis of assessment of “fair and” “reasonable”

In assessing the Merger from the viewpoint of the Participating ASF Securityholders, we considered the various Regulatory Guides issued by ASIC and in particular, RG 74 and RG 111.

RG 111.5 provides that in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the substance of the transaction, rather than the legal mechanism used to effect the transaction.

Although the Merger strictly speaking, is not a takeover offer or a scheme of arrangement, an issue of securities in ASF to ABP Securityholders will occur, such that the ownership interest in ASF of the Participating ASF Securityholders will reduce from 80.045% of ASF to approximately 8.9% of the New Stapled Securities in the Merged Group. In our view, in substance, the Merger can be regarded as a takeover offer for ASF by ABP in which ABP is offering mainly scrip consideration (its own securities) and some cash.

According to RG 111, a transaction that has the effect of a takeover offer (“**Control Transaction**”) should be analysed as a takeover offer, regardless of whether the transaction is effected by a takeover bid, a scheme of arrangement or an issue of shares.

Therefore, the analysis of the Merger from the viewpoint of Participating ASF Securityholders should proceed as if it was a takeover offer and should consider the perspective of Participating ASF Securityholders.

4.8.1 Fair and Reasonable

In the circumstances of a Control Transaction, RG 111 indicates that the words “fair” and “reasonable” establish two distinct criteria:

- is the offer “fair”; and
- is it “reasonable”?

4.8.2 Meaning of “Fair”

Under RG 111.11, an offer is “fair” if the value of the offer consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller, both acting at arm’s length.

If the “bidder” (in this case, ABP) is offering non-cash consideration in a Control Transaction, the comparison should be made between the value of the securities being offered allowing for a minority discount and the value of the securities under offer, assuming 100% of the securities are available for sale (that is, on a controlling interest basis). According to ASIC, this comparison reflects the fact that:

- the “bidder” (ABP) is obtaining or increasing control of the “target” (ASF); and
- the investors in the “target” (ASF) will be receiving scrip constituting minority interests in the combined entity (i.e. the Merged Group).

The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison.

The expert should assess whether a scrip takeover offer is in effect a merger of entities of equivalent value when control of the merged entity will be shared equally between the security holders of the bidder and the target. In such a case, the expert may be justified in using an equivalent approach to valuing the securities of the bidder and the target (RG 111.31).

However, under the Merger, in view of the large difference in size between ABP and ASF, and that Participating ASF Securityholders would acquire only 8.9% of the New Stapled Securities on issue after the Merger is implemented, we do not believe that it can be said that control of the Merged Group will be shared equally between ABP and Participating ASF Securityholders and therefore, in our opinion using an equivalent approach to valuing the securities of the bidder and the target is not appropriate.

4.8.3 Meaning of "Reasonable"

Under RG 111.12, an offer under a Control Transaction is "reasonable" if it is "fair". It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

4.8.4 Assessment of whether the Merger is "Fair" to Participating ASF Securityholders

In determining whether the Merger is "fair" to Participating ASF Securityholders, we compared

- the fair market value of an ASF Security (on a control basis);
with
- the sum of the fair market value of the 0.538 New Stapled Security (on a minority interest basis) plus 14 cents cash offered for an ASF Security ("**Consideration**"). The number of New Stapled Securities to be issued is determined by the Merger Ratio.

We assessed the fair market value of:

- an ASF Security as its pro rata share of the total value of all the ASF Securities determined on a controlling interest basis;
- a New Stapled Security on a minority interest basis as equivalent to recent market trading prices of ABP Securities; and
- the Merger Distribution (being the cash component of \$0.14 per ASF Security), at its face value.

The calculation of the value of the Consideration and assessment of fairness is as follows:

Table 3 – Participating ASF Securityholders – Assessment of whether the merger is "Fair"

	Ref	Note	Low value	High value
Value of an ASF Security (control basis) (\$)	Table 73	A	1.24	1.25
Value of Consideration				
Exchange ratio		B	1.86	1.86
Number of ABP Securities for each ASF Security (Rounded)		C=1÷B	0.538	0.538
Value of one (1) ABP Security (\$) (minority basis)		D	1.90	2.00
Value of ABP Securities for each ASF Security (\$)		E=CxD	1.02	1.08
Add:				
Cash per each ASF Security (\$)		F	0.14	0.14
Total value of Consideration for each ASF Security (\$)		G=F+E	1.16	1.22
Excess / (Deficiency) (\$)		H=G-A	(0.08)	(0.03)
Excess / (Deficiency) (%)		I=H÷A	(6.6)%	(2.4)%

Source: LCF analysis
Numbers are rounded

We have assessed the fair market value of an ASF Security on a control basis, to be \$1.24 to \$1.25. This compares to the assessed the fair market value of the Consideration offered per ASF Security of \$1.16 to \$1.22.

Based on the above analysis, the assessed fair market value of an ASF Security (on a control basis) exceeds the assessed fair market value of the Consideration offered, by between 3 and 8 cents per ASF Security. Therefore, we conclude that the Merger is "not fair" to the Participating ASF Securityholders, according to RG 111 guidelines.

4.9 Assessment of whether the Merger is "Reasonable" to Participating ASF Securityholders

As we concluded that the Merger is "not fair" to Participating ASF Securityholders, we considered whether there are sufficient reasons for Participating ASF Securityholders to accept the Merger.

This involved an assessment of:

- any alternatives realistically open to Participating ASF Securityholders as a whole;
- the financial impact of the Merger on Participating ASF Securityholders as a whole;
- any other advantages and disadvantages of the Merger to Participating ASF Securityholders as a whole; and
- the implications for Participating ASF Securityholders as a whole if the Merger does not proceed.

A summary of the matters that we have considered is set out below.

4.9.1 Alternatives available to Participating ASF Securityholders

A number of alternatives potentially available to Participating ASF Securityholders were considered, including the following:

- maintain the current arrangements;
- list ASF on the ASX;
- undertake a recapitalisation; and
- an orderly realisation of assets and return of funds to ASF Securityholders.

In summary, we note the following with regard to the above alternatives.

4.9.2 Maintain the current arrangements

Maintaining the current arrangements is a possibility in the shorter term, so long as ABP is prepared and able to maintain its debt financing of ASF. However, ASF is otherwise constrained from drawing additional bank debt funding, which means that unless additional equity is raised, ASF will not be able to grow its assets base.

In the longer term, both the current bank debt and the ABP debt financing of ASF will have to be repaid, or at least, refinanced. The bank debt is due for repayment in August 2013 and the ABP debt financing (other than the ASF AWCF that is convertible into equity) is due for repayment in September 2013. The ASF AWCF is due for repayment or conversion in December 2018.

We have concluded that this option would not create additional value for Securityholders over and above that created by the Merger.

4.9.3 List ASF on the ASX

This was analysed by LCF but was not considered attractive for Participating ASF Securityholders from both a financial and/or strategic perspective.

4.9.4 Undertake a recapitalisation

A recapitalisation would need to be of sufficient size to reduce the gearing to a level acceptable in current market conditions. We estimate that this would equate to a gearing (net debt/assets less cash) of between 25% and 30%. In our view, in the current market conditions in order to ensure sufficient demand for such a raising, ASF would need to offer the securities at a substantial discount to the NTA per security and one greater than implied under the Merger.

The majority of recent equity raisings in the listed property sector have occurred at prices below the last trading prices and at large discounts to NTA per security. A capital rising of this size is likely to result in a material dilution to existing security holders. Such a capital raising will reduce the gearing to a more sustainable level but will not necessarily provide additional capital to fund growth.

4.9.5 Orderly realisation of assets

Under this scenario ASF would undertake an orderly realisation of all its assets over time and return the net proceeds (after costs) to ASF Securityholders. This approach was not considered attractive as it did not create additional value for Participating ASF Securityholders over and above that created by the Merger due to the significant costs likely to be incurred and the potential time period this option may take to complete and consequent exposure to pricing risk.

4.9.6 The financial impact of the Merger on Participating ASF Securityholders

Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

On the basis that FY2012 distributions of each of ABP and ASF would not change from FY2011 distributions, the following analysis indicates that Participating ASF Securityholders would be better off in terms of equivalent income per ASF Security:

Table 4 – Change in equivalent distributions per ASF Security, based on FY2011 distributions

FY2011 distributions per security (cents)	Note	cents	cents	cents
ABP	A	16.5		
ASF	B	8.75		
Effect of Merger per one ASF Security - based on FY2011 distributions (cents)				
Exchange ratio: ASF Securities per ABP Security	C	1.86		
No. ABP Securities for each ASF Security (rounded)	D=1÷C	0.538		
ABP equivalent distribution	E=DxA	8.88		
Cash component per ASF Security				
Add: interest income on investment of cash component of Consideration @ % pa		4%	5%	6%
	F	0.56	0.70	0.84
Total income after Merger	G=E+F	9.44	9.58	9.72
Difference	H=G-B	0.7	0.8	1.0
	I=H÷B	7.9%	9.1%	11.4%

Source: LCF analysis

Numbers are rounded

While ABP distributions are projected by various analysts to increase in FY2012 over FY2011 (refer Section 11.7.4), it is likely that growth in distributions per ASF Security will be constrained (refer Section 18.4.2).

ASF pays distributions quarterly, while ABP pays 6 monthly, so if the Merger proceeds, there may be a slight disadvantage for Participating ASF Securityholders in terms of timing of receipt of distributions.

Net assets/net tangible assets per security

As at 30 June 2011 the consolidated net assets/net tangible assets per ASF Security were \$1.295 (after adjusting only for the assumed conversion of the ASF AWCF (refer Section 12.9.5)).

If the Merger is implemented, the pro-forma consolidated net assets/net tangible assets, as at 30 June 2011, per New Stapled Security would be \$2.51/\$2.39, respectively (refer Table 36).

The net assets/net tangible assets on a per equivalent ASF Security basis, are calculated as set out in the table below.

Table 5 – Net assets/net tangible assets per security

As at 30-Jun-11 \$ per security	Ref	Net assets	Net tangible assets
ASF Pro-forma (assuming conversion of ASF AWCF)	A	1.29	1.29
Merged Group Pro-forma	B	2.51	2.39
Net assets/net tangible assets per equivalent ASF Security			
- Exchange ratio	C	1.86	1.86
- No. ABP Securities for each ASF Security (rounded)	$D=1 \div C$	0.538	0.538
- Cash per each ASF Security	E	0.14	0.14
Net assets/net tangible assets per equivalent ASF Security - including cash	$F=E+(D \times B)$	1.49	1.43
Increase/ (decrease) in equivalent NA/NTA per ASF Security (\$) - including cash	$G=F-A$	0.20	0.14
Increase/ (decrease) in equivalent NA/NTA per ASF Security (%) - including cash	$H=G \div A$	15.5%	10.9%

Source: FY2011 Annual Reports of ABP & ASF; Explanatory Memorandum; LCF analysis.

Numbers are rounded

The pro forma net assets of the New Stapled Securities under AASB 10 and AASB 11 (refer Section 11.10) plus Merger Distribution (i.e. cash) received under the Merger per equivalent ASF Security currently held by Participating ASF Securityholders will increase by 15.5% and the net tangible assets will increase by 10.9%.

Gearing

As at 30 June 2011 the pro-forma Group Gearing of ASF was 51.7%.

If the Merger is implemented, the pro-forma Group Gearing of the Merged Group as at 30 June 2011 would be 32.7%.

Therefore, the Merged Group will be less highly geared than ASF, (each on a pro-forma basis).

4.9.7 Advantages and disadvantages of the Merger for Participating ASF Securityholders

We have also considered the following advantages and disadvantages of the Merger from the perspective of the Participating ASF Securityholders.

Advantages

In our opinion, the Merger has a number of potential positive implications for Participating ASF Securityholders, including:

- liquidity: Participating ASF Securityholders will obtain listed New Stapled Securities, which are considered to be liquid, and therefore obtain the opportunity to realise their investment, should they wish to do so, at an earlier time than is likely to be the case if they retain their present investment in ASF;
- part cash consideration: the Consideration offered includes a cash component, (the Merger Distribution, which includes a franking credit) which is a partial realisation of the ASF investment, without any transaction costs;
- internalisation of management: the Merger effects an internalisation of ASF management that is currently undertaken by ABP. The major benefit of such an internalisation would be the elimination of any potential for conflicts of interest and fee leakage from Participating ASF Securityholders to ABP);
- Storage King remains in place as the self storage facilities manager; and

- diversification: an investment in New Stapled Securities provides Participating ASF Securityholders with greater investment diversification.

Disadvantages

Set out below is a summary of the key disadvantages arising from implementing the Merger that relate to Participating ASF Securityholders:

- discount to fair market value: The Consideration is at a discount to the assessed fair market value of an ASF Security on a controlling interest basis;
- increased volatility: One of the attractions to investors of unlisted property investment vehicles is the lack of volatility (perceived or real) in the value of the securities. New Stapled Securities listed on the ASX are likely to experience greater price volatility than ASF Securities; and
- exposure to non storage fund assets: an investment in the Merged Group gives rise to exposure to assets that Participating ASF Securityholders may not like or are outside of their investment profile.

4.10 Kirsh Proposal

The increase in the Kirsh Group security holding relates to ASF (and not to ABP) and will be voted upon by Non-associated ASF Securityholders (defined as ASF Securityholders, other than the Kirsh Group and its associates, if they hold any ASF Securities). ABP Securityholders will not vote on the resolutions relating to the Kirsh Proposal.

The approval sought from Non-associated ASF Securityholders under the Kirsh Proposal is that the Kirsh Group be allowed to increase their relevant interest in ASF up to 42.207% in the six month period following the Merger.

It is noted that all the resolutions to be voted upon by Non-associated ASF Securityholders are conditional on all the other ASF resolutions being approved. Therefore, if the Kirsh Proposal resolutions are not passed, then the Merger will not be approved. Refer Sections 6 and 19 for discussion of this aspect.

4.11 Implications for Participating ASF Securityholders of rejecting the Merger

Set out below are the key implications for Participating ASF Securityholders of rejecting the Merger. In our opinion, in the event the Merger was rejected, Participating ASF Securityholders would be subject to the following issues:

- ASF Securities will remain illiquid: At least until a decision is made as to the future of ASF at a meeting of ASF Securityholders that is likely to be held during 2013, ASF Securities will remain illiquid. Depending upon market conditions at the time and the results of the meeting, it is possible that the ASF Securities will remain illiquid for some time beyond the meeting date;
- potentially slower rates of future growth: Given the relatively high gearing of ASF, and in the current investment climate, the expected continued difficulty in raising equity capital at values approaching NTA, ASF is unlikely to be able to grow its assets materially by acquiring additional storage facility assets. Given the large asset acquisitions recently made by the joint venture between National Storage and Heitman and the stated desire to grow the portfolio by more acquisitions, any inability of ASF to acquire further assets may see it become a diminished market participant, which may adversely affect ASF's ability to access in the future debt and/or capital at more attractive rates; and
- externally managed investment model: the continuation of an externally managed investment model, which results in fees being paid to the external manager.

We have considered whether the Merger is “reasonable”, despite being “not fair” according to RG 111 guidelines and have concluded that there are sufficient reasons for Participating ASF Securityholders to accept the Merger in the absence of a superior proposal. Therefore, in our opinion, while the Merger is “not fair”, it is “reasonable”, in the absence of a superior proposal.

4.12 Assessment of whether the Merger is “in the best interest” of Participating ASF Securityholders

RG 111 indicates that in ASIC’s view, if a proposal is:

- “fair” and “reasonable” – it is “in the best interest” of the relevant security holders;
- “not fair” but is “reasonable” - it is “in the best interest” of the relevant security holders; or
- neither “fair” nor “reasonable” - it is likely to be “not in the best interest” of the relevant security holders.

As we have concluded that the Merger is “not fair” but is “reasonable”, then, on the basis of the RG 111 approach, it is “in the best interest” of the Participating ASF Securityholders.

5 Assessment of Merger for ABP Securityholders

5.1 Summary of conclusions

In summary, our opinion is that the Merger is “fair”, and therefore is “reasonable” to, and “in the best interest” of, ABP Securityholders, as a whole, in the absence of a superior proposal.

5.2 Basis of assessment

In assessing the Merger from the viewpoint of the ABP Securityholders, we were requested to apply the same tests of whether the Merger is “fair” and “reasonable” and “in the best interest” of ABP Securityholders as apply in respect of the assessment in regards to Participating ASF Securityholders.

We note that the Merger cannot result in a Control Transaction in respect of the Merged Group, as only 8.9% of the New Stapled Securities will be issued to Participating ASF Securityholders and existing ABP Securityholders will retain approximately 91.1% of the New Stapled Securities in the Merged Group. In the context of a Control Transaction it is unusual for the security holders in the “bidder” (i.e. ABP) to be asked to approve a takeover offer, unless the consideration comprises the issue of scrip in the “bidder” such that a person will exceed either the 20% takeover or 3% in 6 months “creep” thresholds. This is not the case in respect of ABP under the Merger.

In analysing whether the Merger is “fair” to ABP Securityholders we have compared the fair market value (on a minority basis) of ABP Securities before the Merger and New Stapled Securities after the Merger. If the Merger is assessed to be “not fair” on that basis, assessing whether the merger is “reasonable” will depend upon whether we are of the opinion that sufficient reasons exist for ABP Securityholders to accept the Merger.

The assessment of “in the best interest” has been determined on the basis set out in RG 111 (i.e. that if the Merger is assessed to be “fair” or “not fair” but “reasonable”, then it is “in the best interest” of ABP Securityholders).

5.3 Assessment

5.3.1 Fair

In our opinion, the fair market value of an ABP Security on a minority basis before the Merger is best represented by the ASX market trading price. The trading in ABP Securities has been analysed in Section 11.12. We have concluded that the fair market value of an ABP Security on a minority basis before the Merger is between \$1.90 and \$2.00. This is based on recent market trading on the ASX, calculated on a volume-weighted average basis (refer Section 11.12).

In our opinion, the fair market value of a New Stapled Security on a minority basis after the Merger will be equivalent to the assessed fair market value of an ABP Security on a minority basis before the Merger (refer Sections 14.2 and 15.3).

Obviously, many factors may affect the trading price of an ABP Security and a New Stapled Security. However, in our opinion, the Merger, of itself, should not adversely affect the ASX market trading price of New Stapled Securities.

On the basis of the above analysis, as we have concluded that the value of a New Stapled Security (on a minority basis) after the Merger will be equivalent to the assessed fair market value of an ABP Security (on a minority basis) before the Merger, we are of the opinion that the Merger is “fair” to ABP Securityholders, in the absence of a superior proposal.

5.3.2 Reasonable

As we have concluded that the Merger is “fair” to ABP Securityholders, in the absence of a superior proposal, under ASIC RG 111 guidelines, the Merger is considered to be “reasonable” to the ABP Securityholders.

5.4 In the best interest

As discussed previously, RG 111 indicates that in ASIC’s view, if a proposal is:

- “fair” and “reasonable” – it is “in the best interest” of the relevant security holders;
- “not fair” but is “reasonable” - it is “in the best interest” of the relevant security holders; or
- neither “fair” nor “reasonable” - it is likely to be “not in the best interest” of the relevant security holders.

As we have concluded that the Merger is “fair” and “reasonable”, under ASIC RG 111 guidelines, the Merger is considered to be “in the best interest” of ABP Securityholders.

5.5 Value of an ABP Security

We have assessed the fair market value of an ABP Security on two bases:

- a minority interest basis – at between \$1.90 and \$2.00. This is based on recent market trading on the ASX, calculated on a volume-weighted average basis; and
- on a control basis, at between \$2.43 and \$2.55. This value is based on the net assets/net tangible assets of ABP as disclosed in the audited financial statements of ABP as at 30 June 2011, after various adjustments, including adding the value of other net assets that are not reflected in the assessment of net assets/net tangible assets of ABP as disclosed in the audited financial statements. The valuation assessment is explained in the body of this report (refer Section 15)).

The minority interest basis value is used to assess the fairness of the Merger from the viewpoint of Participating ASF Securityholders, Non-associated ASF Securityholders and ABP Securityholders, in accordance with RG 111 and ASIC’s views.

The control basis value is compared with the ASX market trading prices of ABP Securities (i.e. the minority interest value) before the Merger as part of the assessment of the likely market trading price of New Stapled Securities (i.e. the minority interest value) following the Merger (refer Section 15.3).

5.6 Value of a New Stapled Security

We have assessed the fair market value of a New Stapled Security as being equivalent to the assessed fair market value of an ABP Security on both a control and minority interest basis (refer Section 15.3).

5.7 Assessment of other aspects of the Merger for ABP Securityholders

As we concluded that the Merger is “fair” to ABP Securityholders, according to RG 111 guidelines, it is also considered to be “reasonable”.

However, for completeness, we have also considered a number of other aspects of the Merger for ABP Securityholders, including:

- the fair market value of the consideration offered for an ASF Security - from the perspective of ABP Securityholders;
- the financial impact of the Merger on ABP Securityholders as a whole;

- any other advantages and disadvantages of the Merger to ABP Securityholders as a whole; and
- the implications for ABP Securityholders as a whole if the Merger does not proceed.

A summary of the matters that we have considered is set out below.

5.7.1 Value of consideration offered for an ASF Security - from the perspective of ABP Securityholders

We have assessed the fair market value of the consideration being offered by ABP Securityholders for an ASF Security at between \$1.16 and \$1.22 (refer Table 6). This is based on the Merger Ratio, the assessed fair market value of a New Stapled Security on a minority basis (of between \$1.90 and \$2.00) and the face value of the Merger Distribution (i.e. the cash component of 14 cents). We have assessed the fair market value of a New Stapled Security on a minority basis to be equivalent to that of an ABP Security on a minority basis, at between \$1.90 and \$2.00.

We have assessed the fair market value of an ASF Security being acquired as between \$1.24 and \$1.25 on a control basis.

The value of the consideration being offered by ABP Securityholders (\$1.16 - \$1.22) (using the minority value of an ABP Security) is less than the value of an ASF Security acquired (on a control basis) (\$1.25 - \$1.24) (refer Table 6).

Table 6 – ABP Securityholders – Assessment of consideration offered for an ASF Security

	Ref	Note	Low	High
			\$/Security	\$/Security
Assessed fair market value of a New Stapled Security (minority basis)	Sections 15.2 & 15.3	A	1.90	2.00
Merger Ratio (New Stapled Security per ASF Security)		B	0.538	0.538
Value of proportion of New Stapled Security per ASF Security		C=AxB	1.02	1.08
Cash component of the Offer per ASF Security		D	0.14	0.14
Fair market value of consideration per ASF Security - ABP Securityholders perspective		E=C+D	1.16	1.22
Assessed fair market value of an ASF Security (control basis)		F	1.24	1.25
Value of consideration exceeds/ (is less than) value of an ASF Security		G=E-F	(0.08)	(0.03)
		H=G/F	(6.5)%	(2.4)%

Source: LCF analysis

Numbers are rounded

5.7.2 The financial impact of the Merger on ABP Securityholders as a whole

Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

Gearing

The Group Gearing of ABP increases under the Merger from 26.7% as at 30 June 2011 to 32.7% following the Merger (both on a pro forma basis). The gearing for bank purposes (i.e. Covenant Gearing), also increases, (from 31.6% to 37.6%). However, it remains within current 50% gearing banking covenants.

Net asset and net tangible asset backing

The pro forma net asset backing and net tangible asset backing per New Stapled Security decrease by \$0.03 and \$0.02 per security, respectively, from the position of an ABP Security before the Merger (ignoring the effect of AASB 10). This occurs mainly as a result of the distribution of cash to Participating ASF Securityholders and transaction fees associated with the Merger.

We note in this regard that under Australian accounting standards, any transaction costs associated with acquiring real property, such as State transactions duty and legal and other costs, are generally speaking, expensed and not added to the accounting carrying value of the real estate, which is usually determined with reference to its valuation (unless the valuation supports the capitalisation of transaction costs). Accordingly, any acquisition of real estate assets could be expected usually to lead to a reduction in the accounting-determined net assets and net tangible assets of the acquirer.

Negative impact on underlying earnings per security ("EPS")

The pro forma underlying earnings per New Stapled Security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2%, in part as a result of the U Stow It Holdings Limited ("**USI**") self storage assets being held by a company. This is not expected to impact distributions.

5.7.3 Any other advantages and disadvantages of the Merger to ABP Securityholders as a whole

Advantages

Raising capital at net tangible asset value

ABP will issue approximately 37.6 million ABP Securities representing approximately 8.9% of the New Stapled Securities of the Merged Group at an effective issue price of \$2.41 per security, being the pro-forma net tangible asset backing of ABP at 30 June 2011.

Although less than our assessed range of fair market value of a New Stapled Security (of between \$2.43 and \$2.55), the value of \$2.41 compares favourably with recent VWAP market trading prices of ABP Securities in the range of \$1.90 to \$2.00.

Listed Australian real estate investment vehicles ("**A-REIT**")s undertaking equity issues in the last 12 to 18 months have generally done so at considerable discounts to their respective NTAs (refer Table 78). If ABP were to raise capital in the market to buy ASF for cash, it would most likely have to do so at a price less than recent VWAP market trading prices, which would represent a significant discount to the pro-forma net tangible asset backing of ABP at 30 June 2011.

Portfolio diversification

ABP Securityholders will acquire a direct interest in one of Australia's largest portfolios of self-storage assets, which will increase the Merged Group's direct property assets as a proportion of total assets from approximately 60% pre-Merger to approximately 70% post Merger (on a pro forma basis) (refer columns B and C in Table 7). The increases in direct property asset percentages in columns D and E in Table 7 are the result of consolidation adjustments under AASB 10 & AASB 11.

Table 7 - ABP Securityholders - Portfolio diversification

As at 30 June 2011	A	B	C	D	E
\$'000	ABP Statutory Actual	ABP Statutory Pro-forma	ABP and ASF Total Directly Owned Properties after Merger Pro-forma	ABP AASB 10 (excluding ASF) Pro-forma	Merged Group AASB 10 Pro-forma
Total assets	1,601,622	1,587,556	1,856,254	1,794,959	2,063,658
Property, plant and equipment	19,325	19,325	20,135	162,412	163,222
Inventory (Lewisham & Camellia)	45,989	45,989	45,989	45,989	45,989
Investment properties	844,258	844,258	1,175,391	1,098,128	1,429,261
Other property assets (Note 1)	61,574	61,574	61,574	61,574	61,574
Total Direct Property Assets	971,146	971,146	1,303,089	1,368,103	1,700,046
Direct Property Assets as % of Total assets	61%	61%	70%	76%	82%

Source: ABP

"AASB 10": Denotes application of AASB 10 and AASB 11.

Note 1: Comprises ABP's direct interests in investment properties held through other entities being Virginia Park 232-262 East Boundary Road East Bentleigh VIC (50%), 350 George Street Sydney NSW (50%) and 32 Walker Street North Sydney NSW (25%).

Recurring income stream

ABP Securityholders will acquire access to the underlying cash flows of the storage assets that have proved stable in varying economic conditions, including during the recent global financial crisis ("GFC") and subsequently.

The total Rental and Storage income of the Merged Group's pro forma FY2011 income would increase from approximately 37% pre-Merger to approximately 47% post-Merger, adding significantly to ABP's recurring income profile.

Transaction costs

ABP will pay approximately \$10.9 million in cash (Merger Distribution and transaction costs) that is less in total than the notional duty cost had the transaction proceeded by way of a sale to ABP of the ASF storage assets portfolio.

The Merger is expected to provide the following advantages to ABP Securityholders:

- ABP will gain access to the cash flows arising from ASF to assist in funding its operations and future distributions;
- the ownership structure of the wider ABP group will be simplified and this should assist in an improved understanding of the Merged Group by the market, which should assist in improving the value of a New Stapled Security on the market; and
- expansion of the Merged Group Securityholder base has the potential for increased liquidity of New Stapled Securities.

Overall, successfully addressing issues relating to the funds management activities may lead to a re-rating of ABP/New Stapled Securities trading prices. However, in this Report we do not rely on such a rerating occurring as a result of the Merger. Also, it may be the case that any positive rerating would be delayed until other aspects of the ABP funds management activities are successfully resolved.

Disadvantages

Disadvantages of the Merger include the previously mentioned increase in gearing, reduction in net asset and net tangible asset backing per security and the negligible negative impact on pro forma FY2011 EPS.

5.7.4 Relative contributions of balance sheet net assets

The relative contributions of balance sheet net assets of ASF Securityholders and ABP Securityholders to the Merged Group are similar to the Merger Ratio, as set out in the table below:

Table 8 - Relative contributions of balance sheet net assets

As at 30 June 2011	Note	Net assets \$'000	% Merged Group after adjustments (based on net assets) %	% based on Merger Ratio %
ABP Starting net assets (AASB 10 Pro forma – excluding ASF)		1,025,974		
Merger /consolidation adjustments		(23,904)		
Contribution to Merged Group	A	1,002,070	90.5%	91.1%
ASF Starting net assets		115,518		
Less: cash distributed to Participating ASF Securityholders		(9,780)		
Contribution to Merged Group	B	105,738	9.5%	8.9%
Merged Group net assets (AASB 10 Pro forma)	C=A+B	1,107,808	100.0%	100.0%

Source: Explanatory Memorandum; LCF analysis.

"AASB 10": Denotes application of AASB 10 and AASB 11.

ABP Securityholders will contribute 90.5% of the Merged Group net assets and receive 91.1% of the New Stapled Securities.

5.7.5 Taxation

The Explanatory Memorandum sets out the general Australian taxation impacts of the Merger on ABP and Participating ASF Securityholders.

In summary there should be no immediate capital gains or income tax implications as a consequence of the Merger, but the cost base of securities will be affected. ABP and Participating ASF Securityholders should seek their own taxation advice in relation to the impact of the Merger on their individual positions.

5.8 Implications for ABP Securityholders of rejecting the Merger

In our opinion, in the event the Merger is rejected, ABP Securityholders would be subject to the following issues:

- resolving the strategic direction of the ABP funds management operations is seen as an issue that must be addressed by ABP management. If the Merger is rejected, there may be an increased risk that ABP Securities will remain priced in trading on the ASX at a large discount to NTA; and
- reduced scale of operations;
- a lost opportunity to acquire a portfolio of assets with attractive investment characteristics.

5.9 Assessment of whether the Merger is “in the best interest” of ABP Securityholders

As the Merger is considered to be “not fair” but “reasonable” it is, therefore, “in the best interest” of ABP Securityholders, pursuant to RG 111 guidelines.

6 Assessment of Kirsh Proposal

6.1 Basis of Assessment of Kirsh Proposal

As all the ASF resolutions are conditional on all the other ASF resolutions being approved, if the Kirsh Proposal resolutions are not approved, then the Merger will not proceed. On that basis, separately assessing the Kirsh Proposal as a stand-alone proposal is not necessarily appropriate.

However, we have considered the Kirsh Proposal as a stand-alone proposal in order to highlight the relevant considerations arising in regard to it.

6.1.1 Fair and Reasonable

As discussed previously, in the circumstances of a Control Transaction, RG 111 indicates that the words “fair” and “reasonable” establish two distinct criteria:

- is the offer “fair”; and
- is it “reasonable”?

Fair

Under RG 111.11, an offer is “fair” to “target” security holders if the value of the offer consideration is equal to or greater than the value of the “target” securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

In considering whether this aspect of the Merger is “fair” and “reasonable and “in the best interest” of Non-associated ASF Securityholders we compared the fair market value of an ASF Security (determined as its pro rata share of the total value of all the ASF Securities on a control basis) with the sum of the fair market value of the Consideration offered for the ASF Security being:

- the face value of the cash component of \$0.14 per ASF Security; and
- the fair market value of the 0.538 New Stapled Securities (determined by the Merger Ratio) (on a minority basis).

This is the same test as applied in regard to determining the fairness of the Merger to Participating ASF Securityholders.

Reasonable

In the event that we considered this aspect of the Merger to be “not fair”, we considered whether there are sufficient reasons for Non-associated ASF Securityholders to accept this aspect of the Merger.

This involved an assessment of:

- the fact that the Merger proceeding at all is conditional upon the approval of the increase in the Kirsh Group security holding in ASF from the current 19.955% to 42.207%; and
- the other factors considered in determining whether the Merger is “reasonable” to Participating ASF Securityholders as a whole;

6.1.2 In the best interest

RG 111 indicates that in ASIC's view, if a proposal is:

- fair and reasonable – it is in the best interest of the relevant security holders;
- not fair but reasonable - it is in the best interest of the relevant security holders; or
- neither fair nor reasonable - it is likely to be not in the best interest of the relevant security holders.

6.2 Increasing the Kirsh Group relevant interest in ASF

6.2.1 Fair

In our opinion, the increase in the Kirsh Group's relevant interest in ASF as a result of implementing the Merger is not fair to the Non-associated ASF Securityholders as the assessed fair market value of an ASF Security on a control basis of \$1.24 to \$1.25 exceeds the assessed the fair market value of the Consideration offered for the ASF Securities of \$1.16 to \$1.22.

With respect to the Kirsh Group increasing their relevant interest in ASF in the six months immediately following the Merger, the price that the Kirsh Group will pay for any additional New Stapled Securities is, at the date of this Report, unknown. However, in our opinion, if any acquisitions are made on-market, it is likely that they will be at a price reflecting a minority interest and therefore, the price will be less than the fair market value of ASF Securities (as a component of New Stapled Securities) on a controlling basis. If this is the case, in our opinion, this aspect of the Kirsh Proposal is likely to be not fair to the Non-associated ASF Securityholders.

However, in our opinion, it is not prudent or reasonable to speculate as to what price the Kirsh Group may or may not pay for New Stapled Securities, if any, in the six months following the Merger. Accordingly, it is not possible to give an opinion on the fairness of any such hypothetical transaction.

6.2.2 Reasonable

In our opinion the increase in the Kirsh Group's relevant interest in ASF as a result of implementing the Merger and any increase in the Kirsh Group's relevant interest in ASF Securities to 42.207% (via acquisition of an additional interest in New Stapled Securities of 6.472% from its diluted position of 35.735% immediately after the Merger) in the six months following the implementation of Merger, is reasonable to the Non-associated ASF Securityholders, in the absence of a superior proposal, for the following reasons:

- without the approval of the relevant resolutions, the Merger will not proceed;
- even if the Merger could hypothetically proceed without the approval of the relevant resolutions, the Kirsh Group would be able to increase their relevant interest in ASF Securities (via an acquisition of New Stapled Securities) after the expiration of the six month period following the Merger by 3% in each of the following two periods of six months. Accordingly, the approval represents bringing forward that hypothetical opportunity by approximately twelve (12) months; and

- Kirsh Group has been on-market acquirers of ABP securities since at least January 2009 and have, as such, provided additional depth and liquidity to the market for ABP Securities. Granting the approval may result in the Kirsh Group providing additional depth and liquidity to the market for New Stapled Securities in the six months following the implementation of the Merger. This is balanced against the possibility that as the Kirsh Group's interest in the Merged Group increases over time, the free-float of New Stapled Securities will reduce which may possibly adversely impact on the depth of the market for New Stapled Securities.

6.2.3 In the best interest

As the Kirsh Proposal is considered to be "not fair" but "reasonable" it is, therefore, "in the best interest" of Non-associated ASF Securityholders, pursuant to RG 111 guidelines.

7 Other matters

7.1 Summary

This section sets out a summary of our conclusions. You should read our full Report, which accompanies the Documents, which sets out in full the purpose, scope, basis of evaluation, sources of information, limitations, analysis and our findings.

7.2 Scope

The scope of the procedures undertaken in preparing this Report does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards.

7.3 Securityholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. LCF has not considered the effect of the Merger on the particular circumstances of individual Securityholders. Some individual Securityholders may place a different emphasis on various aspects of the Merger from that adopted in this Report. Accordingly, individual Securityholders may reach different conclusions as to whether or not the Merger is fair and reasonable in their individual circumstances. As the decision of individual Securityholders in relation to the Merger may be influenced by their particular circumstances (including their taxation position), Securityholders are advised to seek their own independent advice.

7.4 Fair market value

For the purposes of our opinion, the term "fair market value" is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

We have assessed the fair market value of an ABP Security on two bases:

- on a control basis; and
- a minority interest basis.

The minority interest basis value is used to assess the fairness of the Merger from the viewpoint of Participating ASF Securityholders and ABP Securityholders, in accordance with RG 111 and ASIC's views.

The control basis value is compared with the ASX market trading prices of ABP Securities as part of the assessment of the likely market trading price of New Stapled Securities following the Merger (refer Section 15.3).

We have assessed the fair market value of an ASF Security on a control basis.

7.5 Special value

We have not considered special value in forming our opinion as to whether the Merger is “fair”. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the particular potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

7.6 Valuation Date

The assessment and valuation opinion is as at 31 October 2011 (“**Valuation Date**”). However, we have undertaken a high level review of matters relating to ABP’s share price since that date and we are satisfied that no adjustment is required to the conclusions reached in this Report.

7.7 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. LCF reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to LCF.

7.8 Sources of Information

Appendix 1 identifies the information referred to, and relied upon by LCF during the course of preparing this Report and forming our opinion.

The statements and opinions contained in this report are given in good faith and are based upon LCF’s consideration and assessment of information provided by the Directors, executives and management of ABP and ASF.

7.9 Use of Report

This report has been prepared at the request of and for the benefit of the Directors of ABP and ASF and for the benefit of the Non-associated Securityholders. The Report was not prepared for any purpose other than that stated in this Report.

LCF does not accept any responsibility to any person other than the Directors of ABP and ASF and Non-associated Securityholders or for the use of this Report outside the stated purpose without the written consent of LCF. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

7.10 Other

This Report was prepared in accordance with APES 225 Valuation Services issued by the Accounting professional & Ethical Standards Board Limited.

Capitalised and abbreviated terms used in this Report have the meanings set out in the Glossary in **Appendix 2**.

7.11 Consent

LCF has provided its consent to this Report accompanying the Documents. Apart from this Report, LCF is not responsible for the contents of the Documents, or any other document or announcement associated with the Merger. LCF acknowledges that its Report may be lodged with regulatory bodies.

7.12 Financial Services Guide

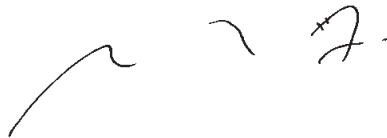
A financial services guide is attached to this Report.

Approval or rejection of the Merger is a matter for individual Securityholders based on their expectations as to the value and future prospects of ABP and ASF, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Securityholders should carefully consider the Documents. Securityholders who are in doubt as to the action they should take in relation to the Merger should consult their professional adviser.

Yours faithfully



Peter Cornell
Director



Vince Fayad
Director

3 MERGER RATIONALE FOR ABP SECURITYHOLDERS

3.1 Reasons for the Merger

The Merger is a commercial property transaction which forms part of the funds management strategic review being undertaken by ABP.

Since its formation in August 2001 with initial total assets of approximately \$280m, ABP has grown rapidly, building total assets to over \$1.6 billion and net assets of approximately \$1.1 billion as at 30 June 2011.

The Merger gives ABP exposure to a portfolio of storage assets currently valued at \$332m, one of Australasia's largest portfolios of storage assets which will be combined with the three storage assets valued at \$16.8m already owned by ABP. The Merger will reweight ABP's asset portfolio to its target asset allocation ratio of 70% Directly Owned Properties and 30% Other Property Assets by increasing Directly Owned Properties from approximately \$1 billion to over \$1.3 billion. It also provides a strong platform from which to pursue further growth opportunities. The storage portfolio is expected to increase and strengthen ABP's recurrent income stream. The underlying cash flows of the storage assets have proved stable in varying economic conditions, including through the recent global financial crisis. During and since that crisis, the storage portfolio has not only maintained its cash flows but showed marginal increases in income.

In August 2011 ABP committed to a strategic review of its funds management business. This is discussed further in Section 7.1.5.

The Merger will be a positive step for both ABP securityholders and ASF securityholders, resulting in a listed diversified property group with total assets of approximately \$2.1 billion and net assets of approximately \$1.1 billion (on a pro forma basis).

The ASF portfolio is already under Abacus Property Group management, with the day to day operations outsourced to Storage King. This management structure will not change as a result of the Merger and accordingly the Merger will be a seamless transition in operational terms.

The ABP Board believes that the Merger is in the best interests of ABP securityholders. The sections below set out the key anticipated benefits and possible disadvantages of the Merger considered in coming to that conclusion.

The ABP Board has considered these benefits and disadvantages and, in the absence of a superior proposal, has concluded that the anticipated benefits of the Merger outweigh the possible disadvantages. The Independent ABP Directors recommend that ABP securityholders vote in favour of the Merger because they believe the Merger is in the best interest of ABP securityholders. The Independent Expert has also considered the advantages and disadvantages of the Merger in its report and has determined that the Merger is fair, reasonable and in the best interest of ABP securityholders..

Information on the business of ASF is set out in Section 7.2.

3.2 Advantages for ABP securityholders

Exposure to one of Australasia's largest storage asset portfolios	<p>The ASF storage portfolio will add to the scale and diversification of ABP's balance sheet, giving access to one of Australasia's largest portfolios of storage assets, and should bolster ABP's recurrent income stream. The storage assets have attractive characteristics:</p> <ul style="list-style-type: none"> • defensive features as evidenced by the strong portfolio cashflow performance during and since the GFC; • relatively low capital expenditure requirements; • scalable cost structure; and • developable net lettable area where surplus land and demand exists.
Larger and more diversified property portfolio	<p>Gross property assets will increase from approximately \$1.8 billion to \$2.1 billion. Exposure to this portfolio reweights the balance sheet to ABP's target asset allocation ratio of 70% Directly Owned Properties and 30% Other Property Assets by increasing Directly Owned Properties from approximately \$1 billion to \$1.3 billion to achieve ABP's preferred balance of recurrent and other income.</p> <p>The increase in the number of properties in the portfolio will reduce the risk associated with holding any single property (including single asset risks such as local market fluctuations, leasing and tenant risks).</p>
Greater revenue stability via recurrent income stream	<p>As indicated above, the storage assets have attractive revenue characteristics including defensive features as evidenced by the strong portfolio cashflow performance during and since the GFC, relatively low capital expenditure requirements and scalable cost structure.</p>
Merger capital management	<p>The Merger is implemented by:</p> <ul style="list-style-type: none"> • an effective issue of ABP securities at pro forma 30 June 2011 NTA (inclusive of pro forma distribution adjustments and the adoption of AASB 10) in exchange for ASF securities at pro forma 30 June 2011 NTA; and • using \$10.9m cash which is less than the notional duty cost had the transaction proceeded by way of sale to ABP.
Issue price of ABP securities	<p>ABP is obtaining exposure to the ASF portfolio by effectively issuing securities at pro forma NTA of \$2.41 which is a premium to current trading prices. However, this also represents a 0.8% to 5.5% discount to the Independent Expert's fair market value of ABP on a control basis of \$2.43 to \$2.55 and a 5% discount to pro forma NAV of \$2.54. These discounts are small compared to some discounts applied in other market transactions in recent years.</p>
Distributions unaffected by the Merger	<p>ABP does not provide distribution forecasts, reflecting that in each period, income may comprise a mix of more stable recurring income and profit from transactions which are less predictable and the timing of which may vary.</p> <p>The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ASF or ABP securityholders arising from the Merger itself.</p> <p>The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.</p> <p>Risk factors which might impact on the performance of ABP and ASF are set out in Sections 1, 3.4, 4.4 and 9.</p>
Reduced cost of debt	<p>The Merger enables ABP to renegotiate and improve its debt arrangements by:</p> <ul style="list-style-type: none"> • reducing ASF's aggregate cost of debt in excess of 1.20% on an annual basis; and • extending ASF's weighted average term by 2.1 years to 3.5 years.
Potential for growth	<p>The increased size and better capitalisation of the Merged Group will create potential to pursue storage fund growth opportunities</p>
No additional management obligations & no change in business profile	<p>The Merger will have no adverse operational implications or material incremental costs.</p>

3.3 Disadvantages for ABP securityholders

Higher gearing	The Merger will increase ABP's pro forma 30 June 2011 Covenant Gearing from 31.6% to 37.6%. These gearing ratios are within the 50% gearing ratio requirement set by ABP's banks under those debt facilities. Pro forma Group Gearing will also increase from approximately 26.7% to 32.7%. This is within the Group Gearing target of 30-35%.
Decrease in NTA per security	The Merger will reduce the pro forma NTA per ABP security as at 30 June 2011 nominally from \$2.41 to \$2.39 due to the cash used for the Merger. Refer to Section 10 of the Explanatory Memorandum for the impact of the adoption of AASB 10.
EPS impact	The pro forma underlying earnings per New Stapled security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2% in part due to tax payable by ASF because the U Stow It self storage assets are held by a company.

3.4 Specific risks for ABP securityholders arising from the Merger

As a result of the Merger, ABP securityholders will be exposed to the specific storage asset risks set out below. ASF securityholders are already exposed to these risks. Risks which are not unique to ABP or ASF but which relate to the business of the Merged Group generally are set out in Section 9.

Gearing	The Merger will result in ABP's pro forma Group Gearing increasing from 26.7% to 32.7%. This theoretically increases the risk that ABP may default in its bank covenants. Similarly, the Merger will result in pro forma Covenant Gearing increasing from 31.6% to 37.6%. However the current bank covenants impose a maximum 50% gearing ratio. While the Merger will result in an overall reduction in the cost of debt, future changes in the cost of current and future borrowings and equity raisings may impact the earnings of the Merged Group.
Replacement of Storage King	<p>Day-to-day management of the self storage assets is outsourced to Storage King, one of Australasia's largest and most experienced self storage operators. However, it is possible that Storage King may become unable to undertake its duties as operator of the self storage assets held by ASF.</p> <p>Each management agreement with Storage King is for a minimum term of 5 years from the date of the acquisition of the relevant property and automatically extends for a further term of 5 years unless terminated. Thirty of the storage asset facilities are subject to management agreements which terminate in May 2015. Finding an alternative manager to Storage King may be difficult and is likely to incur costs.</p> <p>Should Storage King:</p> <ul style="list-style-type: none">• breach an agreement, the agreement may need to be terminated; or• not renew the management agreement, a new manager will need to be found.

Business Risk	<p>As owner of the storage assets, the Merged Group will own both the freehold property and the self storage business. It does not merely collect rent from a tenant but, rather, is exposed to the risk that the underlying self storage business performs poorly and that the net operating income of the self storage facility declines, which in turn may impact on forecast profits and the asset's capital value. Risks to business performance include:</p> <ul style="list-style-type: none"> • forecast occupancy and rental rates decline due to a decline in the demand for self storage space; • Storage King underperforms as manager; • unexpected increases in the costs of running the business including labour rates, advertising, council rates, land tax, insurance, theft, etc; • competition from new storage operations that open in the immediate vicinity of ASF's facilities; • changes to laws which reduce income or increase costs; • legal and other disputes may arise from time to time in the ordinary course of business operations; • general economic conditions which affect the general demand for storage space; and • the introduction of a carbon tax, which will create additional costs.
Tax	<p>To the extent that AT, AIT or ASPT makes a non-assessable Merger or Stapling Distribution which exceeds a securityholder's cost base, in that unit, the securityholder will make a capital gain.</p> <p>While there are not expected to be any tax consequences from implementation of the Merger, as a result of making stapling distributions, there is a reallocation of the cost bases of each of the component parts of ABP securities (AT units, AGHL shares, AIT units and AGPL shares) and ASF securities (ASPT units and ASOL shares) among the component parts of the New Stapled Securities (AT units, AGHL shares, AIT units, AGPL shares, Restructured ASF units and Restructured ASOL shares).</p> <p>The cost base of existing AT units, AIT units and Restructured ASPT units will be reduced as a consequence of making the stapling distributions to effect the Merger. Future tax-deferred distributions from AT, AIT or ASPT will further reduce the cost base of these units. Once the cost base is reduced to zero, any further tax-deferred distributions will be assessable as a capital gain in the year the unitholder is presently entitled to such distributions.</p> <p>The cost base of AT and AIT is further eroded by the proposed reallocation of capital to AGHL and AGPL.</p>
Exchange rate risk	<ul style="list-style-type: none"> • A proportion of the income of ASF is sourced from New Zealand assets. • To create an effective currency hedge on ASF's capital and income exposure to New Zealand, as at the date of this Explanatory Memorandum approximately 78% of the current value of the New Zealand assets is funded by New Zealand dollar denominated debt, leaving a small exposure to currency movements for ASF. • The fluctuation of the Australian/New Zealand exchange rate could affect the forecast income of ASF and distributions to ASF securityholders. ASF will monitor movements in foreign currency markets and, where appropriate, hedge ASF's exposure to foreign currency movements.
Exposure to Storage King fees	<p>Storage King is entitled to receive certain fees, including recovery of reduced management fees, sales management fees, performance fees and termination fees. These fees are subject to certain conditions as set out in Section 7.2.6.</p>

4 MERGER RATIONALE FOR ASF SECURITYHOLDERS

4.1 Reasons for the Merger and alternatives considered

ASF was established with the objective of building a portfolio of storage assets to provide reliable income and potential for capital growth. It was the stated intention of ASFML to grow ASF to a sufficient size to enable an exit strategy, such as listing on the ASX to provide liquidity for investors.

The impact of the GFC and the ongoing global economic problems has meant that the anticipated growth through property acquisition to achieve a viable exit strategy has not been able to be achieved. Based on the twin objectives of preservation of capital and provision of liquidity, the following options were considered and the Independent Expert's assessment of them is set out below:

1. **stand-alone listing:** listing ASF in its current form would likely require an injection of additional equity and result in significant value dilution to ASF securityholder equity (for those who do not want to participate in the capital raising). Further, property stocks with a low market capitalisation are not well-supported by the market and have limited liquidity. The Independent Expert has placed a value range of \$0.93 to \$0.98 per ASF security on this scenario. The Merger results in a higher range of values compared to this scenario and has reasonable certainty of outcome with less execution risk;
2. **immediate portfolio sale:** selling the assets immediately and returning capital to ASF securityholders. This has execution risks including counterparty risk, timing and pricing risk. The Independent Expert has placed a value range of \$1.05 to \$1.12 per ASF security on this scenario. The Merger results in a higher range of values combined with reasonable certainty of outcome with less execution risk compared to this scenario;
3. **deferred portfolio sale:** continue on as an unlisted fund and execute a sale of the portfolio by December 2013. This scenario is considered to be the optimal alternative strategy. The Independent Expert has placed a value range of \$1.13 to \$1.25 on this scenario with the \$1.25 based on high asset growth rates. The Merger results in the same or a higher range of values other than a nominal difference in the scenario of high asset growth rates of \$1.25 when compared to the upper end value of the Merger consideration of \$1.22. However, this analysis ignores any potential value growth in the New Stapled Securities. Further, the Merger has reasonable certainty of outcome with less execution risk and less asset growth risk compared to this scenario;
4. **sale of assets individually or in small groups over a period of time:** the Merger results in a higher range of values and has a reasonable certainty of outcome with less execution risk;
5. **recapitalisation of ASF via third party Merger or capital raising:** merging with another self storage owner/operator was considered but would potentially have resulted in significant value dilution of ASF securityholder equity. Recapitalisation of ASF by any raising of additional equity or debt if possible would be dilutionary to existing ASF securityholder capital (for those securityholders who do not participate in the capital raising). Further, both of these scenarios may not provide an immediate exit strategy for ASF securityholders; and
6. **the Merger:** bringing ASF and ABP together into a single listed Merged Group.

The Merger meets the dual objectives of providing ASF securityholders with an exit strategy and liquidity combined with preservation of capital. The Merger also provides ASF securityholders with the option to stay invested in a property group which has exposure to the ASF assets (although in a diluted form) and also offers exposure to a far more substantial and more diversified property portfolio.

The Independent ASF Directors believe that the Merger is in the best interest of ASF securityholders (subject to no superior proposal being received). Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio. See the Chairman's letter which addresses the ASF Board's proposed action on this proposal.

The ASF Board has considered the advantages and disadvantages and has concluded that the anticipated benefits of the Merger outweigh the possible disadvantages. The Independent ASF Directors recommend, in the absence of a superior Proposal, that ASF securityholders vote in favour of the Merger because they believe it is in the best interest of ASF securityholders. Set out below are the key anticipated benefits and possible disadvantages of the Merger considered in coming to that conclusion. The Independent Expert has also considered the advantages and disadvantages of the Merger which are set out in the Independent Expert's report in Section 2 and Attachment 3 and has determined that the Merger is not fair but reasonable and in the best interest for ASF securityholders.

Information on the business of ABP is set out in Section 7.1.

4.2 Advantages for ASF securityholders

Exit Strategy and Liquidity	<p>The Merger provides an exit strategy and liquidity for ASF securityholders:</p> <ul style="list-style-type: none"> the Merged Group will be listed on the ASX, providing ASF securityholders with the ability to liquidate all or part of their holding of New Stapled Securities; ASF securityholders can retain some or all of the New Stapled Securities they receive as part of the Merger, retaining exposure to the ASF assets as part of a broader, larger and more diversified property portfolio through the Merged Group's \$2.1 billion total assets.
Value of Merger consideration for ASF securityholders	<p>Fair Market Value as determined by the Independent Expert</p> <p>The Independent Expert has determined that the range of fair market values of the Merger consideration is \$1.16 - \$1.22, per ASF security. This comprises:</p> <ul style="list-style-type: none"> \$1.02 to \$1.08 ABP scrip component. This is based on the fair market value range per ABP security (on a minority basis) of \$1.90 to \$2.00, multiplied by the Merger Ratio of 0.538; and \$0.14 Merger Distribution. <p>The precise value of ASF securities under the Merger proposal will fluctuate with movements in the price of the New Stapled Securities listed on ASX. The sensitivity of the Merger consideration for ASF securityholders relative to the ABP security price is illustrated in the table in Section 5.4. The 30 day VWAP for an ABP security as at 11 January 2012 was \$1.95.</p> <p>Other valuation metrics are noted below.</p> <p>Net Tangible Asset Value (NTA)</p> <p>Based on pro forma Merged Group NTA per New Stapled Security of \$2.39, the Merger values each ASF security at approximately \$1.29 NTA. In addition, there is a \$0.14 Merger Distribution paid in cash. In aggregate this consideration values each ASF security at \$1.43.</p> <p>Net Asset Value (NAV)</p> <p>Based on a pro forma Merged Group NAV per New Stapled Security of \$2.51, the Merger values each ASF security at approximately \$1.35 NAV. In addition, there is a \$0.14 Merger Distribution paid in cash. In aggregate this consideration values each ASF security at \$1.49.</p> <p>Fair Market Value assessment of ABP on a control basis by Independent Expert</p> <p>Based on a fair market value per ABP security on a control basis of \$2.43 to \$2.55, the Merger values each ASF security at \$1.31 to \$1.37. In addition, there is a \$0.14 Merger Distribution paid in cash. In aggregate, this consideration values each ASF security at \$1.45 to \$1.51.</p>
Lower gearing	<p>The current level of gearing in ASF is relatively high given current market conditions and constrains ASF's ability to expand the portfolio. The Merged Group is estimated to have Covenant Gearing of approximately 37.6% (on a pro forma basis), compared to the existing bank gearing of approximately 53.6% of ASF as at 30 June 2011 (against a loan to value ratio covenant limit of 55%).</p> <p>ASF banking covenants become more onerous over time, with LVR reducing from 55% to 50% and ICR increasing from 1.55x to 1.75x between the date of this Explanatory Memorandum and January 2013. This may require additional equity being sought which is likely to result in dilution to existing ASF securityholders (who do not participate in the capital raising). Further distributions may be cancelled or suspended to reduce bank debt.</p>
Exposure to larger, more diversified property portfolio	<p>ASF securityholders who retain some or all of the New Stapled securities they receive as part of the Merger will gain exposure to a broader, larger and more diversified property portfolio through the Merged Group's \$2.1 billion total assets.</p>
Increase in NTA per security	<p>As noted above the pro forma NTA per ASF security as at 30 June 2011 is \$1.29. The pro forma NTA per New Stapled Security is \$2.39 which under the Merger offer equates to an NTA entitlement of \$1.29 in each ABP security for every ASF security held before the Merger. When added to the \$0.14 Merger Distribution, this equals an NTA consideration of \$1.43, a 10.85% increase.</p>

Potential upside if ABP trades closer to its NTA	If the ABP security price increases and trades closer to its NTA, then there is further upside for the ASF securityholders.
Alignment of Management and ASF securityholder interests/ Internalisation of ASFML Fees	<p>Under current arrangements, ASF is externally managed by ASFML in its role as responsible entity of ASPT and manager of ASOL. ASFML is paid a management fee based on gross assets and is entitled to other fees. Storage King provides operational management of the ASF storage facilities and charges management fees and is entitled to other fees.</p> <p>There are significant fees that ASF may incur in the future including sales management fees, termination fees, performance fees and potential recoupment of reduced management fees. All of these fees are subject to conditions. If the Merger proceeds, the ASFML fee arrangements will remain in place but will be internalised. This will result in a complete alignment of interest between ASFML and securityholders. This means that the fees and costs previously payable out of ASF to ABP will, following the Merger, be payable to a company that is ultimately owned by You as the holder of a New Stapled Security. The fee structure for third parties including Storage King will not change as a result of the Merger.</p> <p>The ongoing fee savings resulting from the internalisation will not be significant given the 8.9% interest that ASF securityholders will hold in the Merged Group. However, if the Merger does not proceed and alternative liquidity strategies are pursued, fees payable by ASF to third parties may be significant.</p>
Distributions	<p>ABP does not provide distribution forecasts, reflecting that in each period, income may comprise a mix of more stable recurring income and profit from transactions which are less predictable and the timing of which may vary.</p> <p>The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.</p> <p>The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.</p> <p>Risk factors which might impact on the performance of ABP and ASF are set out in Section 1 and in Section 9.</p>
Continuity of management	The Merged Group will be managed by the same experienced management team as presently manages ASF. Storage King will continue to manage the day to day operations of ASF. Storage King is Australasia's largest licensor and manager of self storage facilities. The Merged Group's strategy will be to focus on maximising the value of the ASF assets by working with Storage King to optimise store performance and, where possible, expanding the size of individual facilities consistent with the return profile of the Merged Group.
Potential for growth	The increased size and balance sheet strength of the Merged Group should enhance its financial capacity to pursue storage fund growth opportunities.
Constraints of an unlisted fund	The issues currently facing ASF, including constrained capital structure and the sub-scale nature of ASF's asset portfolio and the consequential risks potentially incurred by ASF securityholders (for example potential future capital value dilution) should be ameliorated by the Merger. There is a higher cost of debt for an unlisted fund, compared to a larger listed group. The Merger enables ABP to reduce ASF's aggregate cost of debt in excess of 1.20% on an annual basis.

4.3 Disadvantages for ASF securityholders

Volatility in price of listed securities	The listing of ASF securities as part of the New Stapled Securities will enhance liquidity but will also expose investors to market volatility and potential price fluctuations.
Change in risk profile	The risks associated with the broader range of businesses undertaken by ABP are set out in Section 3.4. While the benefits of diversification may act to reduce the risks associated with the performance of the Merged Group, there are particular additional risks compared with those associated with the existing investment portfolio of ASF which has provided relatively stable cash flows in varying economic conditions. ABP's income profile typically includes a mix of recurrent and transactional income.
ASF securityholders will miss the opportunity to participate in any short to medium term appreciation in ASF's property values	If property markets improve from what is perceived to be a relatively low point in the property cycle, then due to the high gearing of ASF, any increase in the ASF asset values would translate to a leveraged improvement in the net asset value per ASF security. This means that if the Merger is approved, ASF securityholders will forgo the opportunity to participate solely in this leveraged exposure to any short to medium term upside in the value of the ASF properties. However, New Stapled Securities will also benefit from an improving property market. Therefore if the Merger is implemented, and if existing ASF securityholders retain the New Stapled Securities they receive under the Merger, they will continue to have this opportunity for appreciation in the value of their investment but the leverage upside may not be as great in the Merged Group compared to ASF on a stand-alone basis.
Merger consideration value subject to movements in ABP security price	The value of the Merger consideration at any particular date will be affected by movements in the ABP security price as described in Sections 1 and 5.4.
Discount to fair market value	The fair market value of the Merger consideration of \$1.16 to \$1.22 is less than the fair market value of \$1.24 to \$1.25 per ASF security as determined by the Independent Expert. On this basis, the Independent Expert has concluded that the transaction is "not fair, but reasonable and in the best interest" of ASF securityholders.
Dilution of voting power	Prior to the Merger ASF securityholders as a whole control all of the votes in respect of ASF. The largest securityholder is ABP with 19.955%. The Merged Group will be significantly larger than ASF and the Merger will therefore result in a dilution of this voting power, with ASF securityholders as a whole holding only 8.9% of the votes in respect of New Stapled Securities.
Increase of interest of major securityholder	<p>Because the Kirsh Group currently holds a significant securityholding in ABP, the Merger will result in the Kirsh Group acquiring an equivalent percentage of ASF (i.e. up to 42.207% of ASF in the 6 months following the Merger). ASF securityholders will be asked to consider and vote on this as part of their consideration of the Merger.</p> <p>If the Merger is implemented, the Kirsh Group will obtain a significant stake in ASF without paying a control premium to ASF securityholders. The ASF Board has assessed this risk and nevertheless considers that the Merger is preferable in value terms to other available alternative exit strategies. The Independent Expert has determined that the acquisition by the Kirsh Group of up to 42.207% following the Merger is not fair but reasonable and in the best interests for ASF securityholders.</p>
ASF securityholders would be unable to participate in any alternative proposal for ASF	<p>Although there is no alternative proposal at present, it is possible that an alternative proposal may emerge. Approval of the Merger would necessarily preclude other strategies. The ASF Board has considered a number of exit strategies. It has also considered whether an exit strategy should be adopted now or in the short to medium term. The ASF Board believes that the Merger is the preferred option and that it should be adopted now in the absence of a superior proposal.</p> <p>Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio. See the Chairman's letter which addresses the ASF Board's proposed action on this proposal.</p>

4.4 Specific risks for ASF securityholders arising from the Merger

As a result of the Merger, ASF securityholders will be exposed to the specific risks associated with the ABP portfolio set out below. ABP securityholders are already exposed to these risks. Risks which are not unique to ABP or ASF but which relate to the business of the Merged Group generally are set out in Section 9.

Increased exposure	While the ABP portfolio is more diversified than the ASF portfolio, it potentially has a broader exposure to the general property market risks outlined above than apply to the storage portfolio (whose income has demonstrated stability through differing economic cycles), including risks associated with joint venture activities, development activities and mortgage lending and funds management. ABP's income comprises a mix of recurring and transactional income.
Exposure to market	As ASF securities will be quoted on ASX as part of the New Stapled Securities, the price of those securities will be subject to market movement and volatility which may or may not be referable to the underlying performance of assets of the Merged Group. The share markets have been very volatile in recent times.
Joint venture activities including mortgage lending and development	<p>The Merged Group's activities will also be subject to the risks associated with joint venture activities including the risks of property backed mortgage lending and development. Given security for mortgages and joint venture positions are typically based on real property, many of the risks affecting the value of underlying property security and ability of owners to generate expected returns (both coupon and profit share) and risks associated with development projects are applicable in relation to the risks of mortgage lending. In particular, risks may include:</p> <ul style="list-style-type: none">• any inability of major borrowers to meet their interest and other contractual commitments to the Merged Group (such as in situations of insolvency or foreclosure of their development sites) may have an adverse impact on the income from mortgage investments, which may result in an adverse impact on the financial performance of the Merged Group;• any decline in the value of underlying security may affect the borrower's ability to repay their outstanding debt obligations, particularly if another lender has priority over the security ahead of the Merged Group. Such declines may have an adverse impact on the Merged Group's ability to recover its financial asset value, which may result in an adverse impact on the financial performance of the Merged Group; and• development risks as detailed in Section 9.2.
ABP guarantee to ADIF II	ABP has provided a capital and income guarantee to the ADIF II unitholders in respect of the various unit classes in ADIF II. There is a risk the guarantee may be called upon. However, as noted in Section 10.5, \$49.9m has been recognised in respect of the capital guarantee upon ADIF II's consolidation in the Merged Group's pro forma accounts.
Concentration of property risk	ABP had a mezzanine loan of approximately \$32m to AWLF as at 30 June 2011. This loan is to a fund with a long-term regional residential development project. The performance and recoverability of the loan is correlated to general and local property market conditions and the fund's success in driving residential lot sales. There is a risk that the loan may not be recoverable in full. This risk is discussed further in Section 7.1.6. As at 30 June 2011 there is nominal value in unitholders' equity due to the cumulative write downs of AWLF's development stock. The ABP mezzanine loan which is regularly tested for impairment remains fully recoverable at its current value based on current assumptions although it remains under close consideration. Were AWLF to continue to underperform in the years ahead, further write downs in its development stock would necessitate write downs in both the carrying values of investors' equity and ABP's mezzanine loan.

Interest of major securityholder	<p>The Kirsh Group currently holds a significant interest in ABP and has steadily increased this stake over time as permitted by the 3% creep rules of the Corporations Act. This stake may limit the potential for future price increases and for future control premiums that might otherwise be payable on a takeover and may impact the liquidity of New Stapled Securities if the free float of these securities reduces as a consequence of Kirsh Group increasing its holding.</p> <p>As part of the Merger, the approval of securityholders is sought to allow the Kirsh Group to increase its interest to the same interest in the Merged Group that it would have been able to acquire in ABP if the Merger did not proceed (i.e. 42.207%). If the Merger is implemented, the Kirsh Group may acquire a significant stake in ASF without paying a control premium to ASF securityholders. The ASF Board has assessed this risk and nevertheless considers that the Merger is preferable in value terms to other available alternative exit strategies.</p>
Funds management and fee income	<p>The Merged Group's earnings will include fees from funds management, including Wholesale Third Party Capital Alliances, activities including management fees based on gross assets and other fees based on various performance measures. The level of fee income may be reduced, and the reputation of ABP may suffer, if the value of assets falls or if the performance of any fund is otherwise impaired.</p> <p>Further, any ABP investments in these funds are exposed to the performance of these funds. ABP has provided loans to many of its unlisted funds. If the performance of the funds were to decline and this caused the funds to be unable to meet its interest or capital repayments on those borrowings, this would adversely impact ABP's reported profits. Similarly, if securityholders vote to wind up the funds in advance of the maturity date of ABP loans, then depending on the circumstances this may also adversely impact the recoverability of loans to the funds. The fund investments and loans are regularly tested for impairment, most recently in the 30 June 2011 audited financial statements. For further information, see Section 7.1.6.</p>
Litigation or disputes	<p>Disputes or litigation may arise from time to time in the course of normal business activities of the Merged Group. There is a risk that material or costly disputes or litigation could affect the financial performance of the Merged Group and the value of New Stapled Securities.</p> <p>There is currently a claim against ABP concerning settlement of certain contracts relating to Airlie Beach, Queensland. The claim amount is in the order of \$7m. ABP is strongly defending that claim. The Merger Entities are not currently aware of any other material litigation which may affect the Merged Group.</p>
Tax	<p>To the extent that AT, AIT or ASPT makes a non-assessable Merger or Stapling Distribution which exceeds a securityholder's cost base, in that unit, the securityholder will make a capital gain.</p> <p>While there are not expected to be any tax consequences from implementation of the Merger, as a result of making stapling distributions, there is a reallocation of the cost bases of each of the component parts of ABP securities (AT units, AGHL shares, AIT units and AGPL shares) and ASF securities (ASPT units and ASOL shares) among the component parts of the New Stapled Securities (AT units, AGHL shares, AIT units, AGPL shares, Restructured ASF units and Restructured ASOL shares).</p> <p>The cost base of existing AT units, AIT units and Restructured ASPT units will be reduced as a consequence of making the stapling distributions to effect the Merger. Future tax-deferred distributions from AT, AIT or ASPT will further reduce the cost base of these units. Once the cost base is reduced to zero, any further tax-deferred distributions will be assessable as a capital gain in the year the unitholder is presently entitled to such distributions.</p> <p>The cost base of AT and AIT is further eroded by the proposed reallocation of capital to AGHL and AGPL.</p>
Insurance	<p>The natural disasters in Queensland and Christchurch, New Zealand have resulted in significantly increased premiums and excesses for the underlying assets of AHF. It may be that in the future insurances will not be available for these risks or the cost of premiums and/or excesses will increase further. The cost and availability of insurances impacts on ABP's funds in which ABP has significant investments.</p>
Exposure to market	<p>ABP securities are currently included in various S&P/ASX indices. If the New Stapled Securities are no longer included in these indices the liquidity of the securities may be impacted.</p>

Conflicts of interests with partners	<p>ABP currently participates in various joint ventures on commercial properties and development and co-investment with wholesale third party investors. The interests of the Merged Group may not be the same as those of its joint venturers in relation to these matters. Joint venturers will commonly have veto rights on major decisions which are required to be made in respect of these joint venture arrangements (e.g. re-development and refurbishment, refinancing, the sale of assets and bid pricing).</p> <p>In addition, pre-emptive provisions or rights of refusal may apply to sales or transfers of interests in these properties and business agreements. These provisions may work to the disadvantage of the Merged Group because, among other things, the Merged Group may be required to make decisions about buying or selling interests in these properties or developments at a time when it is disadvantageous to do so.</p> <p>There is also the risk that co-owners and joint venturers may default on their obligations or otherwise act in a manner that adversely affects the Merged Group. Storage King has pre-emptive rights over ABP's shares in ASFML and also over the assets in ASF. If Storage King does not exercise its right over an asset, ABP must not sell the asset at a price lower than that offered to Storage King.</p>
Investments	<p>The Merged Group may hold certain (debt and/or equity or a combination of both) investments in both listed and unlisted property related entities. The value of, and earnings generated from these investments will vary from time to time in accordance with such factors as the underlying value of assets held by the entities, the gearing levels, quoted market values in respect of listed securities and other prevailing investment and market conditions in the sectors where the investments have been made. The value ultimately realised on the disposal of these investments is likely to depend on investment and market conditions at the time of disposal, the liquidity of the investments and the prices obtained on the sale of underlying assets held by the entities. Depending on these factors, there is a risk that the Merged Group will realise a reduced value for these investments.</p> <p>ABP currently has significant investments in unlisted funds it manages, the consolidated book value of which has been impacted for pro forma reporting purposes by the adoption of AASB 10 (refer to Section 10).</p>

5 DETAILS OF THE MERGER

5.1 Merger Entities

ABP is a listed diversified Australian Real Estate Investment Trust comprising AGHL, AT, AGPL and AIT with three core businesses:

- direct property investment;
- funds management (currently the subject of a strategic review) and Wholesale Third Party Capital Alliances; and
- property ventures.

ABP is listed on the ASX and is part of the S&P/ ASX 200 index, with a market capitalisation of around \$748m at 11 January 2012.

ASF is an unlisted property fund comprising ASPT and ASOL that owns a portfolio of 41 storage assets in Australia and New Zealand, managed by Storage King.

AFML is the responsible entity of AIT and AT.

ASFML is the responsible entity of ASPT and is the manager of ASOL under a management agreement between ASFML and ASOL. The directors of ASFML are also directors of ASOL.

AGHL, AGPL, AFML, ASOL and ASFML have largely common directors as set out in Section 8.5.

5.2 Structure

Before the proposed Merger ABP comprises:

ABP			
Abacus Trust (AT)	Abacus Group Holdings Limited (AGHL)	Abacus Income Trust (AIT)	Abacus Group Projects Limited (AGPL)

Before the proposed Merger ASF comprises:

ASF	
Abacus Storage Operations Limited (ASOL)	Abacus Storage Property Trust (ASPT)

After the proposed Merger, Abacus Property Group will comprise:

Existing ABP securityholders 91.1%			Existing ASF securityholders (other than ABP) 8.9%		
↓			↓		
MERGED GROUP					
AT	AGHL	AIT	AGPL	ASOL	ASPT

5.3 The Merger Ratio

The Merger Ratio has been determined by the ABP Board and the ASF Board based on the relative net tangible asset values per ABP security and ASF security that will be contributed to the Merger based on the pro forma NTA at 30 June 2011 (after adjustments relating to the adoption of AASB 10 and provision for distributions). The NTA of each security in ABP for the purpose of the Merger has been determined at \$2.407 as calculated in section 10.5. The NTA of each security in ASF for the purpose of the Merger has been determined at \$1.294 as calculated in section 10.6. The Merger Ratio is therefore 0.538 calculated as \$1.294 divided by \$2.407.

INVESTOR	MERGER RATIO	NUMBER OF NEW STAPLED SECURITIES PER 1,000 ASF OR ABP EXISTING SECURITIES
ABP securityholders	1.00	1,000
ASF securityholders	0.538	538

ASF securityholders (other than ABP) currently hold approximately 69.9m stapled securities in ASF and based on the Merger Ratio are entitled to approximately 37.6m New Stapled Securities in the Merged Group, calculated as 69.9m multiplied by 0.538.

ABP securityholders currently hold approximately 386.7m stapled securities in ABP. ABP will issue a further 37.6m New Stapled Securities to the ASF securityholders. This will increase the total New Stapled Securities on issue in ABP to 424.3m. Accordingly the existing ABP securityholders will own 91.1% of the Merged Group and existing ASF securityholders (other than ABP) will own 8.9% of the Merged Group.

These above transactions do not involve any cash movements.

5.4 Sensitivity of Merger consideration to the ABP security price

Since the Merger consideration is primarily based on a fixed number of ABP securities, the value of the Merger consideration will depend on the price that the New Stapled Securities trade at on and after the date the Merger is implemented. The price of New Stapled Securities will vary in the future based on market conditions and any changes in the Merged Group's circumstances.

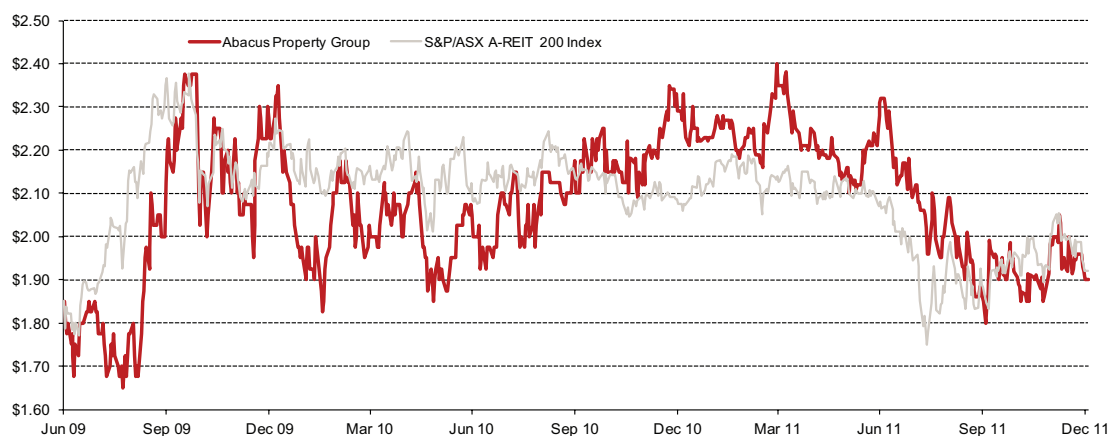
The fair market value of an ABP security (on a minority basis) determined by the Independent Expert is between \$1.90 and \$2.00. The sensitivity of the Merger consideration to the movement in the ABP security price is highlighted in the table below.

ABP security price	\$1.80	\$1.90	\$2.00	\$2.10	\$2.20
Value of Merger ratio entitlement in New Stapled Securities	\$0.97	\$1.02	\$1.08	\$1.13	\$1.18
Merger Distribution	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
Value of Merger consideration	\$1.11	\$1.16	\$1.22	\$1.27	\$1.32

However, the movement in the ABP security price does not impact the following:

- the NTA value entitlement per ASF security of \$1.29 in the Merged Group plus the \$0.14 Merger Distribution, total value \$1.43;
- the NAV entitlement per ASF security of \$1.35 in the Merged Group plus the \$0.14 Merger Distribution, total value \$1.49; or
- the fair market value of ABP (on a control basis) as determined by the Independent Expert of \$2.43 to \$2.55 which equates to a \$1.31 to \$1.37 value entitlement plus the \$0.14 Merger Distribution, total value \$1.45 to \$1.51 per ASF security.

ABP securities are officially quoted on the ASX. Information in relation to the market price of ABP securities is set out below. Information on ABP security prices at any time can be found on ASX's website at www.asx.com.au.



The table below provides summary statistics as to ABP securities VWAP over the last 12 months as at 11 January 2012:

1 day	\$1.94
5 day	\$1.93
10 day	\$1.93
30 day	\$1.95
90 day	\$1.93
6 months	\$1.98
1 year	\$2.11

5.5 Merger mechanics

The Merger, if approved by securityholders, will result in a common securityholder base in each of ABP and ASF by stapling ABP securities to ASF securities to form New Stapled Securities.

The Merger will be achieved by implementing the following steps which are described in detail in Section 11.1 to 11.4:

- ASF securityholders (other than ABP) will receive the Merger Distribution of \$0.14 per ASF security;
- existing ASF securities will be split to facilitate the distributions described below (**Split ASF securities**);
- ABP securityholders will receive a capital return in the form of cash and Split ASF securities and the cash portion will be applied to subscribe for newly issued Split ASF securities;
- ASF will re-consolidate the Split ASF securities including by reference to the Merger Ratio so that the total number of ASF securities on issue will equal the number of ABP securities on issue after the Merger (**Restructured ASF securities**);
- ASF securityholders (other than ABP on the Stapling Record Date) will receive a capital return which will be applied to subscribe for newly issued ABP securities; and
- the ABP securities and the Restructured ASF securities will be stapled together to form the New Stapled Securities, and quoted on the ASX under the code ABP.

Foreign Securityholders will not receive securities in connection with the Merger, but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility (described in Section 11.7 of the Explanatory Memorandum). Foreign Securityholders who currently participate in the DRP will not be eligible to participate in the DRP for the ABP distribution covering the six month period to 31 December 2011. Distributions and sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque.

ASF securityholders may also elect to have their New Stapled Securities sold through the Sale Facility, free of brokerage or other charges.

It is anticipated that all regulatory approvals required for the Merger to proceed will be obtained prior to the date of the ABP and ASF securityholder meetings. However, it is not possible to predict when the approval of the New Zealand Overseas Investment Office will be obtained. Accordingly, the date for implementation of the Merger has been set at either 7 Business Days after the Meeting Date or if later, 3 Business Days after satisfaction of the last condition to the Merger.

5.6 Implementation of the Merger for ASF securityholders

For ASF securityholders (other than ABP and Foreign Securityholders – see Section 3.9) the Merger offer comprises:

- a scrip component; and
- a cash component via a Merger Distribution to ASF securityholders (other than ABP).

Scrip component

If the Merger is approved, on the Implementation Date, existing ASF securities will be split and then subsequently reconsolidated into 0.538 Restructured ASF securities. ASF securityholders (other than ABP) will then hold one New Stapled Security for each Restructured ASF security held by ASF securityholders who are on the ASF Register on the Stapling Record Date.

For example, if You held 1,000 ASF securities on the Stapling Record Date, You will hold 538 New Stapled Securities after the Merger is implemented made up of 538 AT units, 538 AGHL shares, 538 AIT units, 538 AGPL shares, 538 Restructured ASPT units and 538 Restructured ASOL shares.

The New Stapled Securities may be sold on the ASX on a deferred settlement basis from 28 February 2012 and on a normal T+3 basis from 14 March 2012. The last date for registration of transfer of ASF securities prior to the Merger will be 5 March 2012.

Cash component – Merger Distribution

ASF securityholders (other than ABP) will receive the Merger Distribution of \$0.14 per ASF security held on the Stapling Record Date. The Merger Distribution will only be paid if the Merger proceeds.

For example if You held 1,000 ASF securities on the Stapling Record Date You will receive a Merger Distribution of \$140.00.

5.7 Implementation of the Merger for ABP securityholders

If the Merger is approved, the last day for trading in ABP securities on a pre-stapling basis will be 27 February 2011. On the Implementation Date, ABP securityholders (other than Foreign Securityholders - see Section 5.9) will then hold one New Stapled Security for each ABP security held on the Stapling Record Date.

For example, if You held 1,000 ABP securities on the Stapling Record Date, after the Implementation Date You will hold 1,000 New Stapled Securities, comprising 1,000 AT units, 1,000 AGHL shares, 1,000 AIT units, 1,000 AGPL shares, 1,000 Restructured ASPT units and 1,000 Restructured ASOL shares.

The New Stapled Securities may be sold on the ASX on a deferred settlement basis from 28 February 2012 and on a normal T+3 basis from 14 March 2012. The last date for registration of transfer of ABP securities prior to the Merger will be 5 March 2012.

5.8 Securityholders who do not want to participate in the Merger

ASF securityholders who do not want to participate in the Merger may seek to sell their ASF securities at any time on or before 27 February 2012 although this may be difficult as these securities are not listed. ASF securityholders have no right to require that their securities be bought or redeemed by ASFML or anyone else. Transfers will not be registered after 5 March 2012.

ASF securityholders who transfer their ASF securities on or before 27 February 2012 will not be entitled to receive the Merger Distribution of \$0.14 per ASF security if the transfer is registered on or before 5 March 2012.

Alternatively, ASF securityholders may elect to participate in the Sale Facility described in Section 11.7. ASF securityholders who lodge an election to participate in the Sale Facility may not transfer their ASF securities after they have lodged the election form.

ABP securityholders who do not want to participate in the Merger may sell their ABP securities on the ASX on or before 27 February 2012.

5.9 Sale Facility

ABP and ASF have established the Sale Facility whereby ASF securityholders (other than Foreign Securityholders) may elect to have all of the New Stapled Securities which would have been issued to them under the Merger sold through the Sale Facility. Foreign Securityholders will automatically participate in the Sale Facility in respect of any New Stapled Securities to which they would otherwise be entitled under the Merger.

5.10 If the Merger does not proceed

If the Merger does not proceed, both ABP and ASF will continue as separate economic entities. If securityholders do not approve the Merger proposal and the Merger does not proceed, the costs incurred in relation to the Merger will be borne approximately 57% by ABP and approximately 43% by ASF.

The costs that will be shared if the Merger does not proceed are forecast to be approximately \$1,100,000. This amount reflects the costs associated with the Merger including legal, tax, financial advisers, accounting and independent expert costs, application fees to regulatory authorities and issue costs of the Merger documents.

6 SUMMARY FINANCIAL INFORMATION

This section highlights the following:

- the pro forma NTA for ABP for the purpose of determining the Merger Ratio is \$2.41 which is determined based on the 30 June 2011 audited accounts, amended by provisions for distribution, external non-controlling interest and the adoption of AASB 10 (excluding ASF);
- the pro forma underlying EPS of the Merged Group compared to the actual underlying EPS for the year ended 30 June 2011 is nominally impacted (less than 2% reduction) in part due to tax payable by ASF because the U Stow It self storage assets are held by a company; and
- the pro forma Merged Group income statement does not indicate an adverse distribution impact.

ABP and ASF each have sufficient working capital to carry out their stated objectives.

6.1 Pro forma consolidated statement of financial position at 30 June 2011

The pro forma consolidated statement of financial position of the Merged Group is based upon:

- the audited 30 June 2011 financial statements of ABP and ASF;
- adjustments for material pre Merger items (principally the payment by ABP of the second of its 8.25c FY11 distributions on 15 August 2011 (net of DRP), which was declared on 1 July 2011). This adjustment aligns the provision of distributions with that of ASF at 30 June 2011;
- the adoption of AASB 10 and AASB 11 (principally causing the consolidation of the AHF, ADIF II and AMSF funds based on their respective audited 30 June 2011 financial statements) and resultant consolidation adjustments, namely eliminations of inter-entity balances between ABP and AHF, ADIF II and AMSF; and
- Merger accounting adjustments to effect the proposed stapling of ASF and ABP.

But for the proposed Merger of ABP and ASF, AASB 10 would require the consolidation of ASF into the financial statements of ABP. The financial information in this Explanatory Memorandum presents the impact of the consolidation of ASF on the pro forma financial statements as required under AASB 10 together with the pro forma impact on the 30 June 2011 financial statements of the proposed Merger of ABP and ASF giving effect to a business combination. This treatment is intended to provide a clearer presentation of the impacts of the Merger of ASF with ABP and to make clear the basis for determining the ABP NTA to ASF NTA Merger Ratio.

The table below sets out the impact of these adjustments on the Merged Group's consolidated pro forma statement of financial position.

	ABP 30/06/2011 \$'000	ABP POST DISTRIBUTIONS PRO-FORMA 30/06/2011 \$'000	ABP AASB10 EXCLUDING ASF PRO-FORMA 30/06/2011 \$'000	ASF PRO-FORMA 30/06/2011 \$'000	MERGED GROUP PRO-FORMA 30/06/2011 \$'000
Total Assets	1,601,622	1,587,556	1,794,959	336,903	2,063,657
Total Liabilities	508,304	508,304	768,985	221,385	955,850
Total Net Assets	1,093,318	1,079,252	1,025,974	115,518	1,107,807
External non-controlling interests	13,755	13,755	43,910	-	43,910
Total Net Assets owned by ABP securityholders	1,079,563	1,065,497	982,064	115,518	1,063,897
Total Net Tangible Assets owned by ABP securityholders	1,031,909	1,017,843	930,913	115,518	1,012,746
ABP securities on issue	378,484	386,752	386,752	-	424,331
NTA per security owned by ABP securityholders (\$)	2.73	2.63	2.41	-	2.39
Group Gearing (%)	25.8%	26.7%	26.7%	51.7%	32.7%
Covenant Gearing (%)	30.7%	31.6%	31.6%	55.2%	37.6%

Notes:

1. ABP post distributions Pro forma: Based on the audited 30 June 2011 ABP consolidated statement of financial position adjusted for (a) the distribution (net of DRP) paid on 15 August 2011 and (b) adjusting for non-controlling interests in ABP's audited 30 June 2011 financial statements. Refer to Section 10.4.
2. ABP AASB 10 excluding ASF Pro forma: Based on the ABP post distribution Pro forma 30 June 2011 consolidated statement of financial position adjusted for the adoption of AASB 10 and consolidation of AHF, ADIF II and AMSF net of consolidation entries. Refer to Section 10.5.
3. ASF Pro forma: Based on the audited 30 June 2011 ASF consolidated statement of financial position. Refer to Section 10.6.
4. Merged Group Pro forma: Based on the consolidation of the ABP AASB 10 excluding ASF and ASF pro forma 30 June 2011 consolidated statements of financial position in accordance with the offer set out in Section 1 and net of consolidation entries. Refer to Section 10.7.

The table above shows the principal movements between the ABP audited financial position at 30 June 2011 and the pro forma Merged Group financial position at 30 June 2011. In particular the table demonstrates that the gross assets of the Merged Group increase from \$1.6 billion to \$2.1 billion. The net tangible assets per security as a result of the Merger decrease from \$2.41 to \$2.39 and the Covenant Gearing increases from 31.6% to 37.6%, below the 50% covenant test. Group Gearing increases from 26.7% to 32.7%, within the Group Gearing target of 30-35%.

The pro forma net tangible assets per security after the Merger is calculated at \$2.39, a reduction of \$0.37 from ABP's reported NTA per security of \$2.76 at 30 June 2011. The movement in NTA per security is summarised in the table below:

	NTA PER SECURITY
ABP at 30 June 2011	\$2.76
Provision for ABP 30 June 2011 distribution net of DRP*	(\$0.10)
Equity attributable to non-controlling interests	(\$0.03)
ABP pro forma excluding non-controlling interests	\$2.63
AASB 10 consolidation of AHF	(\$0.10)
AASB 10 consolidation of ADIF II	(\$0.12)
AASB 10 consolidation of AMSF	-
Pro forma pre-Merger	\$2.41
Merger of ASF	(\$0.02)
Pro forma of the Merged Group	\$2.39

*The distribution was 8.25 cents per ABP security. Dilution as a result of issuing securities under the DRP causes the overall impact on NTA per security to be \$0.10.

As a result of the consolidation of AHF and ADIF II under AASB 10, a pro forma adjustment of \$83.4m is made to retained earnings in the pro forma statement of financial position which consists of:

- (a) \$34.9m in respect of AHF, refer to Section 10.5, note 2; and
- (b) \$48.5m in respect of ADIF II, refer to Section 10.5, note 3.

6.2 Pro forma consolidated income statement of the Merged Group for the year ended 30 June 2011

The pro forma consolidated income statement for the Merged Group is based upon:

- ABP's and ASF's 30 June 2011 audited income statements;
- Adoption of AASB 10 and AASB 11, principally the consolidation of AHF, ADIF II, and AMSF funds on 1 July 2010, and resultant consolidation adjustments, namely the elimination of inter-entity transactions between ABP and AHF, ADIF II and AMSF for the year ended 30 June 2011; and
- Merger accounting adjustments to effect the (a) business combination under AASB 3 Business Combinations and AASB 10 for the Merger of ABP with ASF and (b) estimated net synergies arising from the formation of the Merged Group as if it occurred on 1 July 2010.

The adoption of AASB 10 and AASB 11 allows comparison with future reported statutory profits and allows the financial impacts of any future decisions arising from ABP's ongoing strategic review of its funds management business to be measured by stakeholders on a comparable statutory reporting basis in subsequent periods.

The table below sets out the impact of these adjustments on the Merged Group's consolidated pro forma income statement.

	ABP 30/06/2011 \$'000	ABP AASB10 EXCLUDING ASF 30/06/2011 \$'000	MERGED GROUP PRO-FORMA 30/06/2011 \$'000
Consolidated profit after tax	17,844	33,773	52,206
External non-controlling interests	(494)	(5,916)	(5,916)
Net profit attributable to ABP securityholders	17,350	27,857	46,290

Notes:

1. ABP AASB 10 excluding ASF: Based on the audited 30 June 2011 ABP consolidated income statement and adjusted for the adoption of AASB 10 and consolidation of AHF, ADIF II and AMSF net of consolidation entries. Refer to Section 10.8.
2. Merged Group: Based on the consolidation of the ABP AASB 10 excluding ASF and ASF pro forma 30 June 2011 consolidated income statements with the offer set out in Section 5.3 and net of consolidation entries and best estimate assumptions relating to Merger synergies. Refer to Section 10.9.

The Merged Group has significantly greater consolidated profit after tax from the inclusion of ASF, AHF, ADIF II and AMSF profits for the whole of the year to 30 June 2011 increasing from \$17.8m to \$52.2m. The consolidated profit after tax of ASF in the year ended 30 June 2011 includes an increase in the fair value of investment assets of \$16.5m, contributing to a large component of the increase in consolidated profits after tax between \$33.8m and \$52.2m in the table above. The increase in external non-controlling interests from \$0.5m to \$5.9m relates to the portion of AHF and AMSF that ABP does not own. The portion of ADIF II that ABP does not own is shown as an expense and is reflected within the consolidated profit after tax rather than shown as an external non-controlling interests as a result of its guarantees to the ADIF II unitholders.

6.3 Pro forma consolidated underlying profit of the Merged Group for the year ended 30 June 2011

Since the inclusion of the underlying profit metric in its 30 June 2009 annual results, ABP has been reporting its underlying profits, in addition to its statutory profits.

ABP's underlying profits reflects the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the result for the ongoing business activities of ABP, in accordance with AICD / Finsia principles for reporting underlying profit.

As set out in Section 10.12 ABP pays distributions out of underlying profits and underlying profits are a key input in determining banking covenants (group interest cover ratio), executive remuneration (short and long term incentives) and both peer and sector performance comparison (principally underlying earnings per share).

Pro forma consolidated underlying profits are based upon:

- the Merged Group's pro forma consolidated income statement for the year ended 30 June 2011;
- ABP's adjustments to the pro forma profit relating to fair value movements (for properties, investments, derivatives and equity accounted investments) and one off items not expected to reoccur, consistent with prior period reporting and AICD / Finsia principles; and
- adjustments for those profits consolidated by ABP under AASB 10 but which are profits that belong to the securityholders of AHF, ADIF II and AMSF. These profits cannot and do not form part of the assessable and distributable (and therefore underlying) profits of the Merged Group.

The table below sets out the impact of these adjustments on the Merged Group's consolidated pro forma underlying profit.

	ABP 30/06/2011 \$'000	ABP AASB10 EXCLUDING ASF 30/06/2011 \$'000	MERGED GROUP PRO-FORMA 30/06/2011 \$'000
Net profit attributable to ABP securityholders	17,350	27,857	46,290
Fair value (non cash) related adjustments	38,801	38,801	25,912
One time, non recurring adjustments	16,000	16,000	16,000
Adjustments for those statutory profits not owned by ABP securityholders	-	(10,507)	(10,507)
Underlying profit	72,151	72,151	77,695
Pro forma weighted average number of securities	372,327	372,327	409,906
Pro forma statutory EPS	4.7	7.5	11.3
Pro forma underlying EPS	19.4	19.4	19.0
Pro forma DPS	16.5	16.5	16.5

Notes:

- ABP AASB 10 excluding ASF: The ABP 30 June 2011 pro forma net profit attributable to securityholders set out in Section 10.8 adjusted for AICD / Finsia principles to derive a 30 June 2011 pro forma underlying profit and EPS.
- Merged Group: The consolidation of the ABP AASB 10 (excluding ASF) plus ASF net of consolidation entries and best estimate assumptions relating to Merger synergies. Refer to Section 10.10.
- Weighted average securities: The Merged Group pro forma weighted average securities includes the 37.6m ABP securities issued as part of the Merger.

Underlying profits of the Merged Group including ASF would be \$77.7m compared to \$72.2m as reported by ABP. For the purpose of underlying profits all profits associated with the consolidation of AHF, ADIF II and AMSF are excluded. Underlying EPS of the Merged Group is marginally lower at 19.0 cents per security compared to the underlying EPS of 19.4 cents for ABP for the year ended 30 June 2011. Part of the reason for the reduction in underlying EPS for the Merged Group is tax payable by ASF because the U Stow It self storage assets are held by a company.

6.4 Debt impacts of the Merger

ABP refinanced its main bank funding requirements in August 2010. This included over \$530m of bank facilities which strengthened and secured the ABP balance sheet.

ABP's bank funded debt position as at 30 June 2011 is detailed below:

CAPITAL MANAGEMENT METRICS	AS AT 30 JUNE 2011
Total bank debt facilities	\$608m
Total bank debt drawn	\$434m
Term to maturity	2.1 yrs
% hedged	58%
Weighted average hedge maturity	4.1 yrs
Average cost of drawn bank debt (pa)	7.8%

ABP announced on 6 December 2011 the following capital management initiatives undertaken since 30 June 2011:

- ABP took advantage of falls in A\$ swap rates over the period of August 2011 to November 2011 to increase its fixed rate hedge positions and reduce its average cost of funding;
- ABP refinanced \$604m of bank facilities with the most significant refinancing being ABP's refinancing of its \$400m Syndicated Facility from an 18 August 2013 maturity date to a tranching facility with \$200m maturing in December 2014 and \$200m maturing in December 2015; and
- ABP renewed \$88m of bank debt facilities for its managed funds comprising ADIF II's \$54m facility and the \$34m Miller Street facility.

Additionally:

- ABP has received and accepted an underwritten offer from a major Australian bank for the refinancing of ASF's existing \$190m A\$/NZ\$ Club facility maturing on 16 August 2013. The new facility (with equal 3 and 4 year tranches) is conditional upon the successful completion of the Merger.
- The underwritten ASF offer provides both price reductions on banking margins and line fees and improved terms including a better interest cover ratio (greater than 1.5 times for the entire loan term) and loan to value ratio (less than 60% for the entire loan term).

The net impact of these capital management initiatives, plus the expected restructure of the ASF swap book post the Merger to current rates, will be that the weighted average cost of bank debt is expected to fall from 7.83% at 30 June 2011 to approximately 7.05% and the weighted average maturity will increase from 2.1 years to 3.1 years on the bank funding for assets owned by ABP securityholders.

abacus property group and abacus storage fund

The table below shows the pro forma bank debt position secured against assets owned by ABP securityholders (i.e. excluding AHF, ADIF II and AMSF) at 30 June 2011 and capital management initiatives undertaken post 30 June 2011 up until 6 December 2011:

As at 30 June 2011

	ABP	ASF	ABP + ASF
Total bank debt drawn ¹	\$434.2m	\$178.0m	\$612.2m
Covenant Gearing for ABP banking purposes* ²	31.6%	N/A	37.6%
Covenant Gearing covenant ²	50.0%	N/A	50.0%
Group ICR ²	3.1x	N/A	2.6x
Group ICR covenant ²	2.0x	N/A	2.0x

* After allowing for the distribution paid on 15 August 2011.

Capital Management Initiatives post 30 June 2011

	ABP	ASF	ABP + ASF
Total bank debt facilities ³	\$617.9m	\$190.0m	\$807.9m
Weighted average maturity ⁴	2.9 years	3.5 years	3.1 years
% of bank debt hedged at fixed rates ⁵	89.1%	74.6%	85.1%
Weighted average hedge maturity ⁵	3.9 years	3.0 years	3.7 years
Weighted average cost of drawn bank debt ⁶	7.25%	6.53%	7.05%

Notes:

1. Drawn debt funding assets owned by ABP securityholders and drawn debt for ASF at 30 June 2011 is:

• Bank debt funding ABP assets 30 June 2011	\$434.2m
• Bank debt funding ASF assets 30 June 2011	\$178.0m
• Pro forma bank debt funding assets owned by ABP securityholders	\$612.2m

The A\$ drawn debt totals A\$559.9m and the NZ\$ drawn debt (all in ASF) totals NZ\$67.5m (A\$52.3m)

2. Covenant Gearing for ABP banking purposes is defined as the ratio of total liabilities (net of cash and excluding quasi-equity debt and hybrid and preferred equity instruments which are subordinated on the same terms as set out in the definition of Quasi-equity Debt) to total tangible assets (excluding cash to the extent that it is deducted from total liabilities). Under the terms of ABP's Syndicated facility assets and liabilities consolidated in circumstances other than when ABP has a greater than 50% voting interest are excluded for Covenant Gearing purposes. Consequently all assets and liabilities consolidated under AASB 10 are excluded with the end result being that the Covenant Gearing for ABP banking purposes reflects those assets and liabilities owned by ABP securityholders. The covenant test is 50% and post the merger with ASF computed pro forma Covenant Gearing is 37.6%.

The Group ICR (Group Interest Cover Ratio) is defined as the ratio of Group EBITDA to group total interest expense. Under the terms of ABP's Syndicated facility income and interest expense attributable to assets and liabilities excluded from the Covenant Gearing are similarly excluded from Group ICR computations. The computed pro forma Group ICR on this basis is 2.6x which is in excess of the covenant requirement of 2.0x.

3. Total bank debt facilities based on committed bank facilities as at 30 June 2011 and updated for new banking facilities/terms and conditions that are either (a) concluded with ABP's bankers or (b) supported by an underwritten bank refinancing offer for ASF. Key changes are:

• ABP Bank facilities 30 June 2011	\$607.9m
• Net changes to ABP bank facilities up to 6 December 2011	\$10.0m
• Bank facility refinancing ASF assets post merger	\$190.0m
• Pro forma bank facilities funding assets owned by ABP securityholders	\$807.9m

The A\$ facilities total A\$746.0m and the NZ\$ facilities (all in ASF) total NZ\$80.0m (A\$61.9m)

4. The weighted average maturity (WAM) of drawn bank debt funding assets owned by ABP securityholders is presented under the same assumptions as (3).

• ABP WAM at 30 June 2011	2.1 yrs
• Net changes to ABP bank facilities up to 6 December 2011*	0.8 yrs
• Total ABP WAM of drawn bank debt at 6 December 2011	2.9 yrs
• WAM of drawn bank facility refinancing ASF assets post merger	3.5 yrs
• Pro forma WAM of drawn bank debt funding assets owned by ABP securityholders	3.1 yrs

* Reflects the passage of time post 30 June 2011 up to 6 December 2011 and the net impact of bank facilities refinancings.

5. The percentage of drawn bank debt hedged at fixed rates is expected to decrease slightly from 89.1% to 85.1% assuming that cA\$160m of fixed rate swaps in ASF will be terminated post Merger and replaced with cA\$132m swaps at lower prevailing market rates (c4%) for a 3 year term.

6. Based on (a) ABP capital management initiatives up to 6 December 2011 (b) the underwritten bank refinancing for ASF and (c) the post merger re-hedging to c4%, the forecast weighted average cost of drawn debt, funding assets owned by ABP securityholders post completion of the merger is estimated to be as follows:

• ABP weighted average cost of drawn debt 30 June 2011	7.83%
• ABP capital management initiatives up to 6 December 2011	(0.58%)
• Impact of ASF merger, rehedging and refinancing	(0.20%)
• Weighted average cost of funding for Merged Group securityholders	7.05%*

* Includes approximately 0.28% attributable to undrawn line fees.

7 PROFILE OF THE MERGER ENTITIES

7.1 ABP

7.1.1 Introduction

ABP had its origins in 1996 with AFML as a boutique property syndicator providing property based investment opportunities for retail clients of financial planners. ABP was established in August 2001 from the merger of a number of these unlisted retail property syndicates and a small development company managed by AFML. ABP had initial assets of approximately \$280m including eight investment properties and a portfolio of property mortgage loans.

From its establishment in August 2001 until listing on the ASX in November 2002, ABP acquired four additional properties, raised approximately \$95m in additional equity and acquired AFML to form an internally managed, diversified property group.

Since listing with total assets of over \$338m, ABP has grown its total assets to \$1.6 billion and total net assets to approximately \$1.1 billion as at 30 June 2011. Since listing, a series of capital raisings has seen the institutional representation on the register increase to almost 80%. The Kirsh Group currently holds 39.207% of ABP and has increased its holding from 27.4% since April 2009. At 11 January 2012 ABP had a market capitalisation of approximately \$748m.

Historical financial information on ABP is provided in Section 10 of this Explanatory Memorandum.

ABP is a diversified property group that specialises in private equity style real estate investments. ABP seeks to invest its capital in core plus property opportunities to drive long term total returns through the property cycle. ABP favours Australian assets in gateway cities that ABP will actively manage through the asset cycle to increase prospective total returns. When appropriate ABP will realise mature assets to free up capital to redeploy into the next generation of higher growth opportunities.

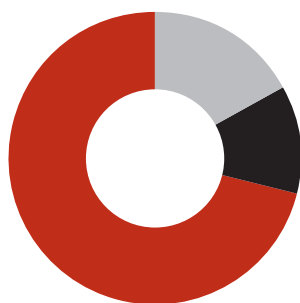
After the Merger, ABP will still have three core businesses:

1. Direct property investment including the ASF storage assets;
2. Funds management (currently the subject of a strategic review) and Wholesale Third Party Capital Alliances; and
3. Property ventures.

The chart below shows the percentage of ABP's EBITDA that was earned by each of the three business segments in the year ended 30 June 2011 and the total assets in those segments at 30 June 2011.

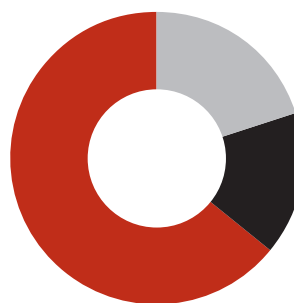
EBITDA by segment

- Property income (71%)
- Property ventures (17%)
- Funds management (12%)



Assets by segment

- Property (64%)
- Property ventures and other assets (20%)
- Funds management (16%)



Each of these is discussed in more detail later in this section.

7.1.2 Direct Property Investment

ABP has a core plus, asset-centric business model which has an emphasis on the features of each asset ABP acquires and the opportunities these assets present. ABP's disciplined property selection process maintains a focus on fundamental real estate value. ABP's experience to date has shown that adherence to fundamental investment criteria enables ABP to acquire assets well and provides opportunities for outperformance while minimising downside risk to ABP capital. ABP's investment objective is to provide ABP securityholders with reliable income and enhanced returns through capital growth. In particular, it seeks property assets that are capable of providing:

- stable growing rental income; and
- improvement in asset value as a result of ABP's active management.

ABP is a property investor seeking to extract value through active management. ABP looks for properties with short-term imperfections in their underlying real estate fundamentals that allow ABP to acquire the assets at a discount. ABP then applies its asset management skills to rectify and capitalise on these imperfections. If appropriate, ABP will realise mature assets that no longer satisfy its investment criteria. This approach has enabled ABP to realise core plus property IRR's in excess of 15%.

ABP is committed to building a balance sheet more reflective of ABP's 70/30 private equity style investment strategy, seeking to ensure 70% of the balance sheet exposure is to Directly Owned Property. Prior to the proposed Merger, the balance sheet fell short of this target ratio with 61% in Directly Owned Property and 39% in Other Property Assets. **The Merger reweights the ABP balance sheet, for assets owned by the Merged Group Stapled Securityholders, to the targeted allocation of 70% Directly Owned Property and 30% Other Property Assets.** It is ABP's intention post the Merger to maintain this ratio although at times it may move outside these ratios.

ABP holds a diversified investment portfolio of commercial, industrial and retail properties. Rental income from these properties is the largest contributor to the earnings of the Group. The property investments portfolio contributed \$78m of FY11 EBITDA (71%). The property portfolio is mainly situated on the eastern seaboard of Australia.

As at 30 June 2011, ABP had a total of \$1,022m in total property assets comprising:

1. Directly Owned Property portfolio valued at \$971m; and
2. Other Property Assets valued at \$51m.

The key portfolio metrics are summarised below:

KEY PORTFOLIO METRICS	JUN 11	DEC 10
Portfolio value (\$m)	971	891
Number of assets	56	66
NLA (sqm) ¹	349,036	332,388
Cap rate ^{1,2} (%)	8.50	8.54
Occupancy ¹ (%)	92.8	91.4
Rent growth ³ (%)	3.0	2.6
WALE ¹ by income	4.0	4.3

¹Excludes development assets

²Includes Virginia Park property, childcare, inventory and property, plant and equipment assets

³Like for Like rent growth

Nearly 100% of ABP's investment properties were independently valued in the last 12 months and approximately 55% of ABP's investment properties were independently valued within the last 6 months from the date of this Explanatory Memorandum. All investment properties not independently valued were subject to internal valuations.

Directly Owned Property portfolio as at 30 June 2011 is as follows:

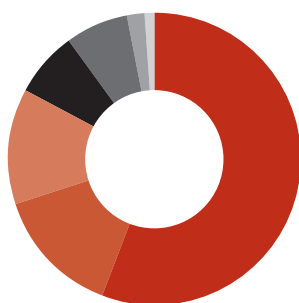
Sector diversity

- Industrial and other (22%)
- Commercial (43%)
- Retail (35%)



Geographic diversity

- NSW (56%)
- VIC (13%)
- QLD (14%)
- SA (7%)
- ACT (7%)
- WA (1%)
- NZ (2%)



Further information on ABP's Directly Owned Property portfolio is incorporated in this Explanatory Memorandum by reference and is available at www.abacusproperty.com.au.

The quality of ABP's Directly Owned Property portfolio strengthened during FY11 with the acquisition of a number of larger high quality Sydney assets (directly or in concert with capital partners), including three Sydney CBD commercial office assets, one North Sydney commercial office asset and Birkenhead Point Shopping Centre and Marina, at a weighted average capitalisation rate of 8.25%. This was accompanied by a reduction in the number of smaller assets, at a weighted average capitalisation rate of 7.95%, through a divestment program of mature, non-core assets.

ABP undertook over \$400m of acquisitions either directly or in concert through Wholesale Third Party Capital Alliances during FY11.

Following 30 June 2011 year-end, ABP also acquired a further high profile Sydney CBD commercial office asset through a new Wholesale Third Party Capital Alliance. This will take ABP's acquisitions since the GFC (directly or in concert with capital partners) to almost \$550m. These acquisitions demonstrate ABP's ability to source and execute a significant quantum of transactions and attract sophisticated third party capital.

As detailed in Section 10 the impact of the adoption of AASB 10 for pro forma reporting purposes is the consolidation of an additional five AHF assets (property value \$156m as at 30 June 2011), 24 ADIF II assets (property value \$178m as at 30 June 2011) and 50 Miller Street, North Sydney (property value \$63m as at 30 June 2011). ABP would therefore have on a consolidated basis (including ASF) an overall property portfolio value of approximately \$1.7 billion comprising 127 assets at a weighted average capitalisation rate of 8.7%.

7.1.3 Funds management and Wholesale Third Party Capital Alliances

The retail funds management division of ABP was established in 1996 based on a solid platform of retail investor support. This division has historically been a significant component of the business providing recurring fee income from the provision of management and other services. For FY11 this division contributed \$13m or 12% of ABP's EBITDA.

The relationship between ABP and its retail funds is relatively complex with ABP acting as responsible entity (fund manager), property manager, equity investor and lender. Retail assets under management as at 30 June 2011 exceeded \$800m and ABP's investment (debt and equity) in its retail funds approximated \$250m as at 30 June 2011 plus a further \$73m held by associated entities of ABP. The equity investments and loans made by ABP to each of the funds at 30 June 2011 are carried on the balance sheet at their equity accounted and amortised cost values respectively.

Due to the GFC and the impact of recent corporate failures, sourcing retail capital for unlisted property funds has become increasingly difficult. The current market volatility and the uncertain global economic outlook have continued this trend and consequently it is not anticipated that ABP will seek to launch any new retail funds in the foreseeable future.

Recognising this changing trend, a desire to simplify its business model and capitalise on ABP's core plus strengths, ABP in its FY11 annual results presentation committed to perform a strategic review of its funds management platform. Further, and as part of this strategic review, ABP stated that it would take into account the upcoming changes to relevant accounting standards that may impact fund managers.

The aim of this review is to enable ABP to redeploy capital into direct property investments thereby reweighting its balance sheet to its targeted 70% Directly Owned Property strategy.

This review is still ongoing at the date of this Explanatory Memorandum, and progress to date and recommendations made are set out in Section 7.1.5 along with details of the individual funds.

7.1.4 Property ventures

ABP participates in a range of projects by combining ABP's capital and property expertise with the regional or sector-specific expertise of ABP's joint venture partners. ABP provides a range of property financing solutions, including mezzanine finance, structured equity participation and pre-sales agreements. The investment mix reflects ABP's aim to achieve development style returns from priority and debt based positions. Generally these investments are made via loans that provide priority to equity, earn interest and participate in the project upside. ABP's experience in project management and execution is utilised where required. ABP targets 15-25% IRR across all projects. All investments are held at the lower of cost or net realisable value.

A summary of ABP's exposures in the property venture business segment as at 30 June 2011 is shown in the chart below:

Investment diversification

- 1st mortgage + profit share (52%)
- Equity (22%)
- Priority (14%)
- 2nd mortgage (12%)



Over the past 10 years, ABP has written over \$184m of mortgages (net of provisioning) earning an average IRR of 19% pa. The most significant investments in the Property Ventures portfolio as at 30 June 2011 were as follows:

PROJECT	STATE	PROJECT DESCRIPTION	COMBINED DEBT AND EQUITY INVESTMENTS	STATUS POST 30/06/11
RCL portfolio	NSW	The RCL portfolio consists of 3 development projects that are cross collateralised, including: Riverlands: An 82 ha potential residential land sub-division at Milperra, NSW. Camellia: A 6.7 ha commercial and residential development site near Parramatta, NSW. Lewisham: A high density infill residential site in Lewisham, NSW.	\$89.5m	Riverlands: Awaiting a council supported rezoning approval. Camellia: Development and rezoning plans submitted for residential and retail scheme. Lewisham: Conditional sale, awaiting development approval from State Govt.
Bay Street	VIC	Coles Supermarket and approximately 95 residential unit development in Brighton, VIC.	\$24.3m	Construction to commence early 2012.
Muswellbrook	NSW	1,200 lot residential sub-division in Hunter Valley, NSW. Joint venture with Monarch.	\$18.3m	Sales progressing.
Hampton	VIC	76 unit luxury apartment and townhouse development in Hampton, VIC.	\$14.9m	65 of 76 dwellings sold.
Rosebery	NSW	Powerhouse residential development of 134 apartments and 2 retail units in inner Sydney suburb of Rosebery.	\$12.9m	Pre-sales have reached 130 of 134 units. Construction began in August 2011.
Main Street	VIC	Potential mixed retail, commercial and residential development in Pakenham, VIC.	\$10.2m	Awaiting rezoning approval.

7.1.5 Funds management strategic review

The funds management strategic review, although ongoing, has resulted in the following outcomes, recommendations and actions. The Merger described in this Explanatory Memorandum forms part of this review.

1. Redirection from unlisted retail funds management to Wholesale Third Party Capital Alliances

ABP has continued to divert its resources (capital and personnel) to joint venturing with wholesale investors to source third party capital. The current Wholesale Third Party Capital Alliances include:

PROPERTY	THIRD PARTY	100% PROPERTY VALUE	ABP INTEREST	VALUE
Birkenhead Point, Drummoyne, NSW	Kirsh Group	\$174.0m	50%	\$87.0m
14 Martin Place, Sydney, NSW	Kirsh Group	\$95.0m	50%	\$47.5m
350 George Street, Sydney, NSW	W Property Group	\$25.8m	50%	\$12.9m
32 Walker Street, North Sydney, NSW	Heitman LLC	\$35.6m	25%	\$8.9m
309 George Street, Sydney, NSW	AM alpha GmbH	\$68.8m	25%	\$17.2m
484 St Kilda Road, Melbourne, VIC	Heitman LLC	\$68.0m	25%	\$17.0m

The ability to source wholesale third party capital is very important to ABP as it:

- leverages ABP's existing capital;
- drives ABP's return on equity;
- validates ABP's core plus track record, buy side expertise and total return investment approach; and
- provides substantial capital for growth.

2. Adoption of new accounting standards which will affect reporting by fund managers comprising:

- AASB 10 Consolidated Financial Statements;
- AASB 11 Joint Arrangements; and
- AASB 12 Disclosure of Interests in Other Entities.

The ABP Board, including Myra Salkinder, considered and resolved to adopt the accounting standards AASB 10, 11 and 12 in December 2011. Sections 6 and 10 have been prepared on the basis that AASB 10 and AASB 11 have been adopted.

3. ASF – the Merger

The proposed Merger forms part of the funds management strategic review. The advantages and disadvantages to both ABP and ASF securityholders are detailed in Sections 3 and 4 respectively of this Explanatory Memorandum.

4. Abacus Diversified Income Fund II (ADIF II)

As part of the funds management strategic review, the offer document for ADIF II was closed in December 2011 and no further equity will be raised. This means that the total capital guarantee to unitholders is capped at approximately \$55m of which approximately \$50m is provided in the pro forma statement of financial position at 30 June 2011. The actual guarantee exposure (if any) will be determined at the maturity dates of the guarantee in 2013 (20% of the total guarantee exposure) and between 1 July 2016 and 30 June 2017 (80% of the total guarantee exposure).

5. Abacus Hospitality Fund (AHF)

AFML has undertaken to hold an AHF securityholder meeting by March 2012 at which meeting AFML will outline to AHF securityholders the various strategic options available to AHF and make a recommendation in relation to the optimal exit strategy or strategies for AHF securityholders.

6. Abacus Wodonga Land Fund (AWLF)

This is a long term urban development in Wodonga, Victoria with residential stock expected to be constructed and sold over the next 10 years. AFML will continue to manage this development through the life of the fund (provided it remains as responsible entity) to maximise value for investors.

7. Abacus Miller Street Holding Trust (AMSF)

AFML will look to sell this asset and release capital over the medium term subject to unitholder approval.

8. Abacus Jigsaw Trust (AJT)

AFML will look to release its capital over the medium term.

abacus property group and abacus storage fund

7.1.6 Information on ABP's unlisted retail funds

A summary of the key aspects of each of ABP's retail funds as at 30 June 2011 (updated for any material events) is detailed below:

	ASF	ADIF II	AHF	AMSF	AWLF	AJT
Fund description	Owns storage property assets	Diversified property fund with capital and income guarantee	Owns hotel assets	Owns 50 Miller Street, North Sydney	Residential land development	Owns 50% interest in Jigsaw Childcare Group
No of Assets	41	24	5	1	1	8 (leasehold)
Gross assets	\$339m	\$188m	\$173m	\$65m	\$54m	\$9m
Wav cap rate	9.2%	9.0%	8.9%	8.3%	n/a	n/a
Occupancy	85%	94%	70%	98%	n/a	n/a
Bank Debt	\$179m	\$91m	\$69m	\$34m	\$15m	none
Bank debt term to maturity	2.1 years	1.6 years (2.3 years at December 2011 due to recent extension)	3.0 years	1.0 year (1.8 years at December 2011 years due to recent extension)	1.0 year	none
Bank covenant Compliance	Yes	Yes	Yes	Yes	Yes, but subject to review event	n/a
Fund term	The Merger will provide the exit strategy if approved	1 July 2016 to 30 June 2017	Unitholders meeting to be held by March 2012 to determine exit strategy	Sale of property expected in the medium term	Long term position estimated through to 2022 unless wound up earlier	Sale of interest in the medium term
ABP investments (including related entities)	\$56.4m comprising i) AWCF ¹ \$28.7m; ii) loan \$4.9m; iii) equity \$22.8m	\$102.5m comprising i) AWCF ¹ \$47.4m; ii) \$48.0m subordinated loan; iii) \$7.1m equity	\$104.9m comprising i) \$87.5m AWCF ¹ ii) \$7.0m second-ranking loan; iii) \$10.4m equity	\$23.5m comprising i) second-ranking loan \$20.8m ii) equity \$2.7m	\$31.8m comprising i) secured loan of \$31.8m; ii) 15% of fund equity	\$3.8m equity
Consolidation under AASB 10	Yes, but subject of the Merger	Yes	Yes	Yes	No	No, already consolidated by ABP

Note 1: AWCF ranks pari passu with equity on a fund wind up. In respect of AHF and ADIF II, the AWCF can only be repaid to the amount outstanding of the AWCF.

Abacus Diversified Income Fund II (ADIF II)

ADIF II is a diversified property fund owning a portfolio of 25 properties (24 at 30 June 2011) across industrial, commercial and retail sectors. The initial funding of ADIF II's assets was provided by a combination of bank debt and the AWCF provided by ABP. ADIF II was launched in 2007 and since then various enhancements have been made to this product, notably capital and income guarantees, to broaden its appeal to the investor market. The aim of these capital raisings was to repay the equity bridging funding provided by the AWCF to the fund. Unfortunately the capital raisings for this fund have proven to be less than expected and external equity of approximately \$55m has been raised to date.

The fund has three classes of units on issue, each with some form of income and/or capital guarantee. Based on capital raised to the date of this Explanatory Memorandum, the capital guarantee comprises:

- A class units - 11.0m units issued with a \$1.00 per unit capital guarantee. This guarantee has been provided by ABP and is only effective after 1 July 2013 and potentially payable during September 2013 if the net asset value of the units is less than \$1.00 as at 30 June 2013. The guarantee can be satisfied by the issue of ABP scrip or cash or combination of both at the discretion of ABP.
- B class units - 25.0m units issued with a \$1.00 per unit capital guarantee. The capital guarantee is effective after 1 July 2016 and no later than 30 June 2017. The guarantee can be satisfied by the issue of ABP securities or cash or combination of both at the discretion of the ADIF II unitholders. ABP and its related entities have an interest in 7.1m B class units.
- C class units - 25.7m units issued with a \$0.75 per unit capital guarantee as at 6 December 2011. These units have the same rights as the B class units.

In addition to the capital guarantee, ABP has guaranteed a 9% income yield for the life of the fund for the B and C class units with the income indexed to the consumer price index for each year from 1 July 2011. At the date of this Explanatory Memorandum, the income guarantee is 9.3% per annum for FY12 which exceeds the cash available for distribution from the Fund resulting in ABP deferring the payment of some of its interest due on loans advanced to ADIF II.

ABP is actively managing ADIF II's property assets in order to optimise the returns for ADIF II unitholders and to minimise reliance on the ABP guarantee.

As at the date of this Explanatory Memorandum, the offer document for ADIF II is closed and no further equity will be raised, which places a cap of approximately \$55m on the potential guarantee exposure. The pro forma NTA of ABP after the adoption of AASB 10, as presented in Section 10, substantially provides for the guarantee exposures to ADIF II unitholders by recognising a \$49.9m non-current liability in the pro forma statement of financial position of ABP. The \$102.5m of loans and equity shown in the table above are eliminated on consolidation in the pro forma statement of financial position set out in Section 10.

Abacus Hospitality Fund (AHF)

AHF was launched to retail investors in 2007 with a portfolio of 7 hotel assets and a second offer document was launched in March 2008 to raise additional capital. Unfortunately the timing of these capital raisings was just prior to the GFC and insufficient equity was raised to repay the interim funding provided to AHF by ABP. At 30 June 2011, ABP and its related entities had loaned \$87.5m to AHF.

Following asset sales over recent years to reduce the debt in the fund, the current portfolio comprises 5 properties: three hotels are located in Queensland, one hotel in Canberra and one hotel in Christchurch, New Zealand.

The financial performance of AHF over recent years has been volatile. The performance of the fund's hotels and their underlying value have been adversely impacted by the GFC, the high Australian dollar and the recent natural disasters of floods and Cyclone Yasi in Queensland and the earthquakes in Christchurch in 2011. As a consequence, there has been reduced demand for hotel accommodation, particularly from international tourists and corporate business. However there are signs of improving demand, particularly in the Christchurch hotel which has seen occupancy increase significantly due to emergency and relief workers' accommodation requirements. ABP believes that the fundamentals for the sector remain sound, with occupancies still at reasonable levels, a limited supply of new hotels, Australia remaining a favoured destination for international tourists and discounted fares promoting both domestic and inbound tourism.

Due to the recent natural disasters in Christchurch and Queensland, insurance for AHF has become increasingly difficult to obtain and the terms and conditions have become more onerous. Property insurance for three of the hotels located in Queensland and Christchurch were renewed at 30 September 2011 at significantly increased premiums and excesses. Even so, there is no guarantee that in future years insurance cover will be available.

The net asset value of AHF's equity was \$0.61 per security (including the notional conversion of AWCF into securities in the fund) as at 30 June 2011 compared to a weighted average investment price of \$1.00 per security. The consolidation of AHF through the adoption of AASB 10 effectively restates the \$87.6m loan from ABP to the fund from its recoverable amount to its fair value amount at 30 June 2011 (based on AHF's net asset value). This effectively assumes that AHF is wound up at 30 June 2011 and causes a \$34.9m loss to be recognised in retained earnings of ABP (notwithstanding this loan is not repayable until March 2016 and the loss may not be incurred). The pro forma NTA of ABP at 30 June 2011 as presented in Section 10 fully reflects this adjustment to retained earnings. The \$104.9m of loans and equity shown in the table above are eliminated on consolidation in the pro forma statement of financial position set out in Section 10.

Abacus Wodonga Land Fund (AWLF)

AWLF was launched in 2005 and provided investors with an exposure to a large scale urban development in Wodonga, Victoria known as White Box Rise. Sales commenced in August 2008 and since that time over 200 residential lots have been sold. Land parcels have also been sold for various developments including a school, shopping centre and community centre. The completed scheme over 170 hectares will comprise over 1,100 residential lots, a school (opened May 2011), shopping centre (opened 7 December 2011), an aquatic centre (due to open December 2012) and commercial uses. It is anticipated that this development may take up to a further 10 years to complete.

The performance of AWLF to date has been very disappointing due to a number of issues including the GFC and its adverse impact on the rate of unit lot sales and consumer sentiment. In addition there has been difficulty in obtaining senior debt on acceptable terms for regional development projects.

AWLF failed to meet its residential sales targets in the quarter ended 31 March 2011 and 30 June 2011 and this constituted a banking review event as a result of which the bank commissioned an independent valuation. The valuation confirmed that the fund remained compliant with its 50% LVR covenant. There was also a review event at 30 September 2011 which resulted from the low number of sales achieved in the quarter to 30 June 2011, despite an improvement in the sales rate for the quarter ended 30 September 2011. The bank is not currently exercising any rights as a consequence. The AWLF bank debt matures in June 2012 and AFML is in discussions with the bank to extend this facility.

Until further bank borrowings are advanced all project costs of the Fund (including new lot construction, infrastructure costs, interest and other administrative costs) are being met by a mezzanine loan from ABP. Continued funding will be provided by ABP until terms can be agreed with the bank for an extension of the facility and a release of bank funds to partly repay the Abacus mezzanine loan. At the current time the loan from ABP to AWLF is expected to be outstanding for several years.

A number of initiatives have been undertaken to stabilise the financial position and the performance of this fund including a reduction in the fees and interest charged by ABP to the fund and repositioning the sales strategy in May 2011. Since 30 June 2011, the fund has continued to broaden its land products to appeal to a wider target market including the retirement sector and to the investor market, as well as to owner occupiers. This has helped increase sales rates during the current financial year.

ABP will continue to manage this development through the life of the fund (provided it remains as responsible entity) to maximise value for investors. Returns to unitholders are ultimately dependent on the housing demand in Wodonga which will determine the rate of sales and land price increases.

As at 30 June 2011, there was nominal value in AWLF unitholders' equity due to the cumulative write downs of AWLF's development stock. Were AWLF to continue to underperform in the years ahead, further write downs in its development stock would necessitate write downs in both the carrying values of investors' equity and potentially ABP's mezzanine loan. The ABP mezzanine loan, which is regularly tested for impairment, is currently expected to be fully recoverable over the project term and is included in ABP's pro forma statement of financial position at full value of \$31.8m at 30 June 2011.

Abacus Miller Street Holding Trust (AMSF)

AMSF with gross assets of \$65m at 30 June 2011 was set up in June 2007 and owns a ten storey office property located at 50 Miller Street, North Sydney. The office component is 94% of the total building area and is let to National Australia Bank under a lease that expires in October 2017. At 30 June 2011, ABP had lent \$20.8m to this fund with a maturity date of June 2014.

The value of this property declined during the GFC in line with other property assets and this caused the net asset value per unit to fall from \$1.00 to \$0.48 at 30 June 2011. ABP's equity in AMSF at 30 June 2011 has been written down to its fair value and the loan remains fully recoverable. AFML anticipates a sale of the asset in the medium term.

Abacus Jigsaw Trust (AJT)

AJT was set up in February 2008 to invest in a 50% share of a corporate childcare business now operating at 8 leasehold premises primarily in the Sydney CBD. ABP's 40% equity interest in AJT is carried at its fair value. AFML will look to release its capital over the medium term.

7.2 ASF

7.2.1 Introduction

ASF is an unlisted property fund comprising ASPT and ASOL whose securities are Stapled. It was established to acquire storage assets in order to provide reliable income with potential for capital growth. Storage King, one of the largest self storage operators in Australasia carries out branding and day to day operational management of the portfolio. ASF is one of the largest owners of storage facilities in Australia and New Zealand. ABP holds 19.955% of ASF securities.

ASF was launched in November 2005. Its initial portfolio of 16 facilities comprising \$100m in total assets has grown to more than \$332m of property assets at 30 June 2011. The growth of the portfolio was facilitated by ABP, which provided funds to ASF in advance of its raising equity to enable the acquisition of additional assets.

Equity of approximately \$87m was raised under two offer documents, the second of which closed in January 2010. Securities were issued initially at \$1.00 per ASF security under the first offer document dated November 2005 and \$1.18 per ASF security under the second offer document dated December 2008.

Detailed historical financial information on ASF is provided in Section 10.6 and 10.9.

7.2.2 Property portfolio

ASF has a portfolio of 41 storage facilities throughout Australia (30) and New Zealand (11). ASF has one of the largest self storage portfolios in Australasia, with assets of \$332m. The average capitalisation rate of the portfolio as at 30 June 2011 was 9.2%. Trading across the portfolio was sound, with occupancy at 85% and the average rental rate increased by approximately 4% over FY11.

Detailed information on the ASF storage portfolio is incorporated in this Explanatory Memorandum by reference and is located on the ABP website at www.abacusproperty.com.au.

All of ASF's property assets were either independently valued at June or December 2011.

7.2.3 Fund performance

As at 30 June 2011, the pro forma net asset value per security reported in ASF's annual report was \$1.29. This net asset value assumes the notional conversion of the AWCF in accordance with the offer document and loan agreement.

ASF has delivered consistent distributions to investors. This commenced at 8.0 cents per security in FY06 (annualised for the Fund's partial first financial year) and has increased to 8.75 cents per security in FY11. These distributions were achieved by ASFML and Storage King reducing their management fees.

The combined uplift in asset value and distributions reported since inception reflects the stability of the cash flows of the underlying assets, especially as this return profile incorporates the difficult trading period since the GFC and its adverse impact on economic and investment activity. The portfolio cashflows since that time have not only been maintained but have shown marginal increases.

7.2.4 ASF bank debt

ASF announced on 27 August 2010 a new 3 year \$190m A\$/NZ\$ debt facility. This facility successfully completed the refinancing of ASF's existing debt facilities into one new three-year facility expiring in August 2013. As at 30 June 2011 ASF had drawn \$178m of bank debt representing a loan to valuation ratio of approximately 53.6% against a bank covenant of 55%. ASF's borrowings remain close to its banking covenants but ASF has managed to successfully maintain covenant compliance throughout its life through valuation uplifts, asset sales and short term facilities from ABP.

7.2.5 ASF securityholder meeting

When ASF was launched in November 2005, the manager undertook to convene a meeting in 2010, at which time a recommendation would be made to securityholders to determine various strategic options for the Fund.

In November 2010, ASF securityholders passed a special resolution to extend the 2010 date to 2013 by which time ASFML must recommend strategic options to securityholders on the future of their investment including a liquidity event.

ASF provides investors with a limited liquidity facility pursuant to which ABP acquires securityholder interests on a quarterly basis. However this facility remains fully utilised and will only be available if and when new equity is raised.

The Merger provides a liquidity outcome for the ASF securityholders.

7.2.6 ASF fee structure

a) Summary

The ASF fee arrangements are detailed below and set out in Attachment 4. ASFML and Storage King are entitled to receive management fees and have agreed to reduce these fees subject to certain conditions. Other fees (including recoupment of reduced management fees) may be payable if certain conditions are met. An assessment of each of these fees is detailed below. If the Merger proceeds, the fee arrangements will remain unchanged but the ASFML fees will be internalised. Following the Merger, New Stapled Securityholders will indirectly own 100% of ASFML, so that any fee payments to ASFML will simply result in cash being paid from one side of the Merged Group to the other. However the current arrangements with Storage King will remain in place and be unaffected by the Merger.

b) Performance Fee

A performance fee may be payable to ASFML in the event of the sale of any asset of ASF. The performance fee will be equal to 10% of the difference between the net sale price (after deduction of all selling expenses) of the asset and its total acquisition cost (being the purchase price plus stamp duty and all other acquisition expenses).

A performance fee may also be payable on listing of ASF if the aggregate value of the assets of ASF exceeds the sum of the total acquisition costs of those assets. This performance fee will be equal to 10% of the difference between the aggregate value of the assets and their total acquisition costs.

Storage King is entitled to 50% of any performance fee if ASFML charges this fee.

For the purposes of the Merger ASFML will not charge a performance fee.

c) ASFML Management Fees

ASFML as the responsible entity of ASPT is entitled to receive an annual management fee of 0.85% of the total gross assets of ASF. Under the Constitution, ASFML may waive, reduce or postpone the receipt of any fee (or any part of a fee) or charge a lesser fee than ASFML is entitled to receive. ASFML may recover any fees waived, reduced or postponed in a later year.

After 1 July 2010, ASFML will only increase its management fee up to a maximum 0.85% of gross assets if the distributions to ASF Investors in that financial year are at least equal to the distribution in the prior financial year plus the greater of CPI or 3%.

Management fees that have been reduced may also be recouped in a later year subject to certain conditions (including performance benchmarks). The performance benchmark is if in any financial year ASF's net asset value increased by more than 5% compounded from 1 October 2008, ASFML may utilise up to 50% of the increase in net asset value growth above the 5% threshold to pay out ASFML and Storage King's reduced management fees. If these fees are recoverable, it has been agreed that ASFML may recoup its fees ahead of Storage King.

Since ASF was launched to June 2011, ASFML has reduced management fees by approximately \$5.3m. Based on the performance of ASF from 1 October 2008 to 30 June 2011, ASFML is not currently entitled to recoup any of these reduced fees. However, these fees may become payable assuming continuing average asset growth rates of the ASF portfolio and the term of ASF extends beyond 2013.

d) ASFML Management Services Agreement

Three of ASF's 41 storage assets are held by ASOL. Pursuant to a Management Services Agreement between ASFML and ASOL, ASFML was appointed to manage and administer the business interests and affairs of ASOL generally and to perform other services and functions as agreed from time to time.

The agreement requires ASFML to act in accordance with the direction and overall supervision of ASOL in performing its functions for ASOL. The fees that ASFML receives for managing ASOL equate to the fees that ASFML charges in respect of the assets held in ASPT. These comprise:

- a management fee of up to 1% per annum of the aggregate gross value of ASOL's assets plus GST, payable monthly in arrears. The actual fees charged have been reduced to 0.425% of gross asset value, although the reduced fees may be recouped in the future subject to certain conditions, including performance benchmarks as set out above;
- an acquisition fee of 1.25% of the purchase price of every additional asset acquired by ASOL subject to a minimum fee of \$75,000; and
- a sales management fee equal to 0.75% of the net sale price achieved on disposal of a storage facility by ASOL.

The Management Services Agreement has a term of 25 years from 3 August 2005, unless terminated by ASOL due to ASFML materially breaching the agreement. As a result of the Merger, ASFML and ASOL will be ultimately owned by the same securityholders. The Management Services Agreement will therefore become an internal arrangement between companies which are part of the same listed group. Accordingly, there will be no fee leakage to third parties and no other material issues are anticipated to arise from the Management Services Agreement.

e) Sales management fee

Each of ASFML and Storage King is entitled to a sales management fee equal to 0.75% of the net sale price, payable on disposal of a property. This fee is not payable if, after payment of the sales management fee, the net sale price (i.e. the sale price of the facility less any fees and costs associated with the sale) is less than the adjusted purchase price of the property (i.e. the aggregate of the purchase price plus any amount of capital expenditure and sales management fee related to the facility).

The Merger does not result in these fees being payable by ASF.

7.2.7 Termination of ASFML

ASFML can retire or be removed and replaced with another appropriately licensed company if ASF securityholders pass an extraordinary resolution (if the scheme is not listed) to that effect at a properly convened meeting of ASF securityholders. An "extraordinary resolution", in relation to a registered scheme, means a resolution of which proper notice has been given and that has been passed by at least 50% of the total votes that may be cast by members entitled to vote on the resolution (including members who are not present in person or by proxy).

If such a resolution is successful, ASFML will be entitled to recoup any unpaid fees due to it.

7.2.8 Storage King reduced management fees

Under the Relationship Deed between the ASF Entities and Storage King, it was agreed that Storage King would reduce up to 100% of its management fee for the first 30 assets in order to support the forecast distribution level of ASF.

Storage King can only charge its management fee up to a maximum of 3.5% of gross receipts on the existing ASF assets if the distributions per ASF security in that financial year are at least equal to the distributions in the prior financial year plus the greater of CPI or 3%.

Any reduced management fees may be recouped in a later year, either in cash or as ASF securities, subject to certain conditions as referred to in Section 7.2.6 (c) above.

Since ASF was launched to June 2011, Storage King has reduced management fees by approximately \$4.5m. Based on the performance of ASF from 1 October 2008 to 30 June 2011, Storage King is not currently entitled to recoup any of these reduced fees. These fees are not expected to be payable absent strong asset value growth rates of the ASF portfolio.

7.2.9 Termination of Storage King

ASFML can terminate the arrangements with Storage King subject to certain conditions, provided that Storage King is paid an amount equivalent to the service fees paid to Storage King in the 12 months preceding the month in which the arrangements are terminated.

The audited statutory accounts for the year to 30 June 2011 show amounts paid to Storage King for service fees across the portfolio of \$1.49m for that year.

The Merger does not trigger this payment.

7.2.10 Other fees

As detailed in the ASF offer document dated 2008, there is a range of other fees including equity raising fee, acquisition fees, and fees allowable under the ASPT constitution. These fees are detailed in Attachment 4.

7.2.11 Storage King arrangements

The main agreements governing the arrangements between ASF entities and Storage King (and their respective entities) are:

(i) Specialist Management and Support Services Agreement

This agreement governs the provision of management and support services by Storage King in respect of the day to day management of the self storage business operated at certain assets.

Storage King is the employer of the staff who work at each of ASF's facilities.

(ii) Relationship Deed

A Relationship Deed entered into between Storage King, ASF and certain key Storage King personnel operates as a framework agreement regulating the parties' relationship and the various underlying management and licensing agreements.

AGHL currently holds 100% of the shares in ASFML. If AGHL wishes to sell the shares in ASFML, it must give Storage King the first opportunity to acquire the shares at a price determined by ABP. Storage King has 30 days to accept or reject the offer. If Storage King does not accept the offer, AGHL may sell the shares within the next 120 days at the same or a higher price than the price offered to Storage King.

(iii) Storage King Management and Licence / Agreements

ASF and Storage King have entered into a number of agreements regulating their arrangements.

The expiration time frames for these agreements are detailed in the table below:

NUMBER OF ASSETS	ASSETS	COMMENCEMENT DATE	EXPIRATION DATE	ADDITIONAL TERMS
30	Original storage assets in Australia & New Zealand	1-Jun-10	31-May-15	5 years if neither party terminates the agreements by 3 months before expiry (i.e. Feb-15)
1	Hamilton, New Zealand	15-Oct-07	14-Oct-12	5 years if neither party terminates the agreements by 3 months before expiry (i.e. Jul-12)
5	Townsville, QLD portfolio	12-Nov-07	11-Nov-12	5 years if neither party terminates the agreements by 3 months before expiry (i.e. Aug-12)
2	Rocklea & Salisbury, Brisbane, QLD	27-Mar-08	26-Mar-13	5 years if neither party terminates the agreements by 3 months before expiry (i.e. Dec-12)
3	ACT Portfolio	1-Jul-08	30-Jun-13	5 years if neither party terminates the agreements by 3 months before expiry (i.e. Mar-13)

Storage King has a pre-emptive right to acquire the assets of ASF. If ASF identifies a buyer for an asset, it must first offer that asset to Storage King at the same price. Storage King has 21 days to accept or reject the offer, after which ASF is free to sell the asset. The Merger does not trigger this right.

8 PROFILE OF PROPOSED MERGED GROUP

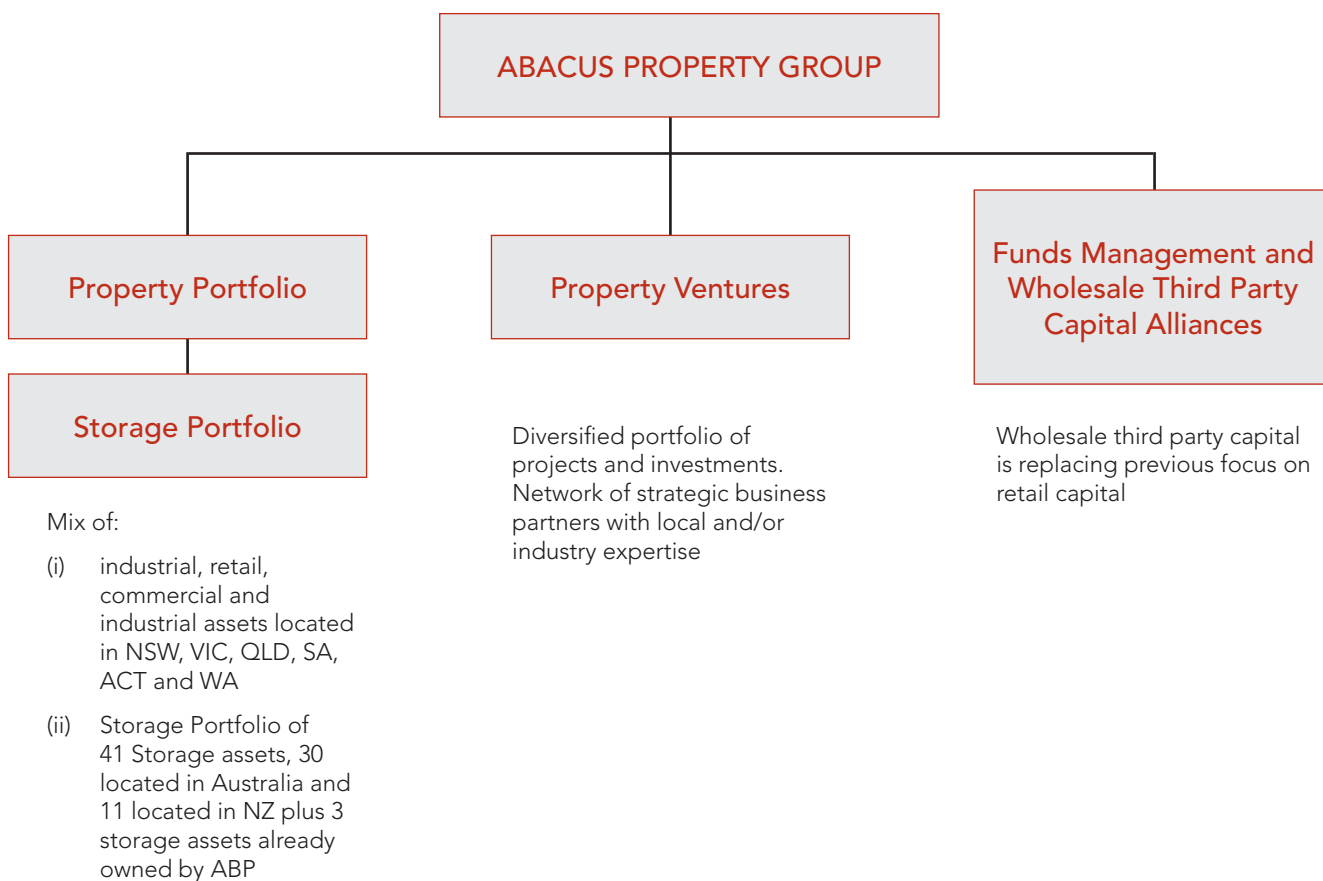
8.1 Introduction

The Merged Group will be an internally managed diversified property group listed on the ASX. It will have approximately:

- 424m stapled securities on issue; and
- total assets of \$2.1 billion and net assets of \$1.1 billion.

The actual FY11 distributions to ABP and ASF securityholders are supported by the pro forma Merged Group financials.

If the Merger proceeds, the Merged Group's core business activities will be substantially the same as the activities of the existing ABP, as reflected in the following diagram:



Note: The storage portfolio may be reported as a separate segment in the Merged Group's accounts.

8.2 Strategy

The strategy of the Merged Group will continue the current strategy of ABP with the focus on the three core activities as detailed in Section 3.1, of which 70% is targeted to be invested in Directly Owned Property and 30% in Other Property Assets. A particular focus of ABP is the funds management strategic review which is detailed in Section 7.1.5.

The management of ASF will not change as a result of the Merger. Storage King, Australasia's largest licensor and manager of self storage facilities will continue to manage the day to day operations of the ASF facilities. ABP's strategy will continue to focus on maximizing the value of the ASF assets by working with Storage King to optimise store performance and, where practical, expanding the size of individual facilities. This has proven a successful model at a number of facilities over recent years.

Information on the debt profile of the Merged Group is provided in Section 6.4.

8.3 Property portfolio

The combined property portfolio post Merger will have assets with a carrying value as at 30 June 2011 of over \$2.1 billion, diversified across retail, industrial, commercial, carpark and leisure properties located in all Australian states, Australian Capital Territory and New Zealand, including \$350m storage assets throughout Australia and New Zealand.

The property portfolio will comprise:

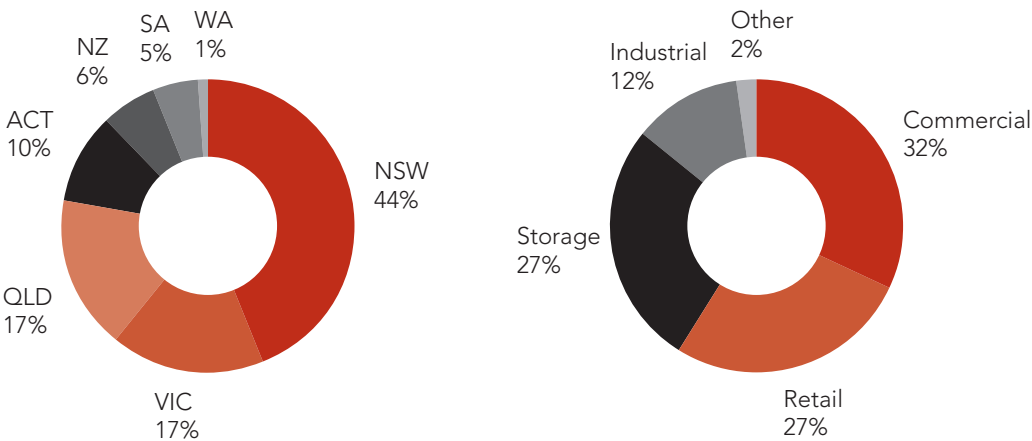
- Directly Owned Properties valued at \$1.3 billion; and
- Assets consolidated under AASB 10 valued at \$0.4 billion.

	ABP PRO FORMA	ASF	TOTAL DIRECTLY OWNED PROPERTIES AFTER MERGER OF ASF ¹	AHF	ADIF II	AMSF	TOTAL INCLUDING AASB 10 CONSOLIDATION ²
Assets (\$m)	1,588		1,856				2,064
Property Value (\$m)	971	332	1,303	156	178	63	1,700
Cap Rate	8.5%	9.1%	8.7%	8.9%	9.0%	8.3%	8.7%
% Assets	61.1%		70.2%				82.4%

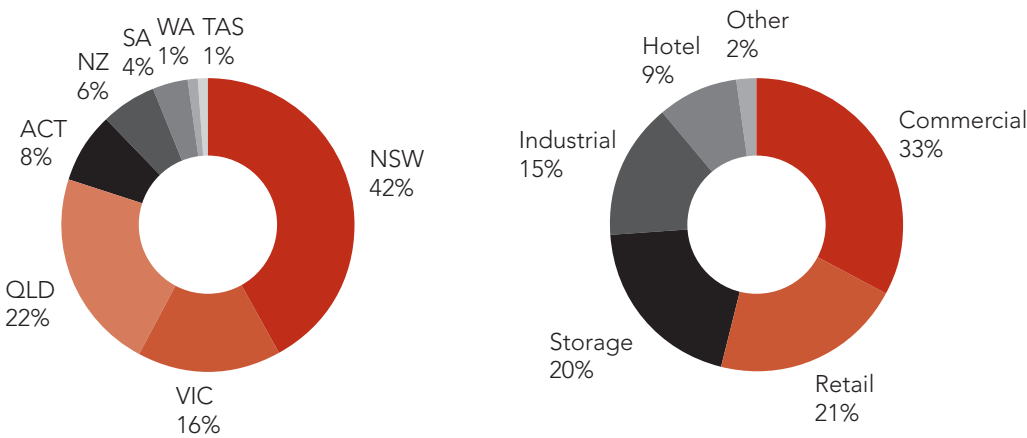
¹Assets owned by Merged Group Stapled Securityholders

²Assets owned and consolidated by Merged Group Stapled Securityholders

The charts below show the sector and geographic analysis of the Directly Owned Properties, including the storage assets.



The charts below show the sector and geographic analysis of the Directly Owned Properties, including the storage assets plus those assets consolidated under AASB 10 (including AHF, ADIF II and AMSF).



8.4 Fees

Following the Merger, ABP securityholders and ASF securityholders will own all of the securities in the Merger Entities. Accordingly, any fees payable from one stapled entity to another will be effectively owned by the same set of securityholders. In other words, all ABP management fees from ASF will be “internalised” as a result of the Merger.

Fees will remain payable to external parties such as Storage King. These fees are described in detail in Attachment 4 and are also reflected in the pro forma financial information in respect of previous years in Section 10.

8.5 ABP Board and ASF Board

Corporate governance of the Merged Group will be the responsibility of the boards of AFML (as responsible entity of AT and AIT), AGHL, AGPL, ASOL, and ASFML (as responsible entity of ASPT).

The table below shows the board composition of each of the Merger Entities at the date of this Explanatory Memorandum.

	AFML	AGHL	AGPL	ASFML	ASOL
John Thame	x	x	x	x	x
Frank Wolf	x	x	x	x	x
William J Bartlett	x	x	x		
David Bastian	x	x	x	x	x
Malcolm Irving	x	x	x	x	x
Myra Salkinder	x	x	x	x	x
Leonard Lloyd				x	x

Following the Meeting Date, to ensure consistency across the Merger Entities, it is intended that Leonard Lloyd will resign as a director of the ASF Boards, and William Bartlett will be appointed to the ASF Boards. Information about the directors is set out below.

MR JOHN THAME

Mr Thame is the Chairman and a Non Executive Director with over 30 years’ experience in the retail financial services industry in senior management positions. His 26-year career with Advance Bank included 10 years as Managing Director until the Bank’s merger with St George Bank Limited in 1997. Mr Thame was Chairman (2004 to 2008) and a director (1997 to 2008) of St George Bank Limited and St George Life Limited. He is also a director of Reckon Limited and The Village Building Co Limited (Group).

Mr Thame is Chairman of the Due Diligence Committee and an ex-officio member of the Audit & Risk and Remuneration & Nomination Committees. Mr Thame is a member of the due diligence committee set up in respect of this Explanatory Memorandum.

DR FRANK WOLF

Dr Wolf is the Managing Director of Abacus Property Group. He has over 20 years’ experience in the property and financial services industries, including involvement in retail, commercial, industrial and hospitality-related assets in Australia, New Zealand and the United States. Dr Wolf has been instrumental in over \$3 billion worth of property related transactions, corporate acquisitions and divestments and has financed specialist property-based assets in the retirement and hospitality sectors. Dr Wolf is a director of HGL Limited, a diversified publicly listed investment company.

Dr Wolf is a member of the Due Diligence Committee and a member of the due diligence committee set up in respect of this Explanatory Memorandum.

MR WILLIAM J BARTLETT

Mr Bartlett is a Non-Executive Director. As a partner at Ernst & Young for 23 years, he held the roles of Chairman of Worldwide Insurance Practice, National Director of Australian Financial Services Practice and Chairman of the Client Service Board. Mr Bartlett is a director of Suncorp-Metway Limited, GWA Limited, Reinsurance Group of America Inc and RGA Reinsurance Company of Australia Limited and is Chairman of Kennards Self Storage. Mr Bartlett was a director of Arana Therapeutics Limited (2004 to 2007). He is also Chairman of the Council of Governors for the Cerebral Palsy Foundation.

Mr Bartlett is Chairman of the Remuneration & Nomination Committee and a member of the Audit & Risk Committee.

MR DAVID BASTIAN

Mr Bastian is a Non-Executive Director and has almost 40 years' experience in the financial services industry. He was the Managing Director of the Group until September 2006, Managing Director of the Canberra Building Society for 20 years and an Executive Director of Godfrey Pembroke Financial Services Pty Limited for 7 years.

Mr Bastian is a member of the Due Diligence and Remuneration & Nomination Committees.

Mr Bastian is not intending to offer himself for re-election to the board at the next annual general meeting in November 2012.

MR MALCOLM IRVING

Mr Irving is a Non-Executive Director and has over 40 years' experience in company management, including 12 years as Managing Director of CIBC Australia Limited. He was a director of Thales Australia Limited (2000 to 2010). He is also a director of O'Connell Street Associates Pty Ltd and Macquarie University Hospital.

Mr Irving is Chairman of the Audit & Risk and Compliance Committees and a member of the Due Diligence and Remuneration & Nomination Committees. Mr Irving is the Chairman of the due diligence committee set up in respect of this Explanatory Memorandum.

MRS MYRA SALKINDER

Mrs Salkinder is a Non-Executive Director and is a senior executive of the Kirsh Group. She has been integrally involved over many years with the continued expansion of the Kirsh Group's property and other investments, both in South Africa and internationally. Mrs Salkinder is a director of various companies associated with the Kirsh Group worldwide.

Mrs Salkinder is a member of the Due Diligence and Audit & Risk Committees.

All board committee charters and corporate governance policies which currently apply to ABP will apply to the Merged Group and are posted on the corporate governance page on the Abacus Property Group website at www.abacusproperty.com.au.

MR LEN LLOYD

Mr Lloyd is a licensed Real Estate Agent and a registered Real Estate Valuer. He has 40 years experience in the development, management and funding of commercial, retail and residential property. Mr Lloyd joined the Abacus Property Group in October 2000 and now holds the position of Managing Director of Abacus Property Services Pty Limited responsible for property administration and development opportunities in the Abacus Property Group portfolio. In previous positions Mr Lloyd held responsibility for the property portfolios of the Advance Bank and St George Bank and provided valuation and lending advice while with the Commonwealth Development Bank for 21 years.

8.6 Directors' fees

The constitutions of the ABP Entities and the Listing Rules require that the aggregate remuneration of non-executive directors must be determined from time to time by a general meeting. The last determination was at the annual general meeting held on 12 November 2010 when ABP securityholders approved an aggregate remuneration limit of \$800,000 per year. This amount represents a limit on non-executive directors' total fees and does not represent the actual fees to be paid to non-executive directors which are set out in the table below. The directors of ASOL do not receive fees in that capacity.

The aggregate remuneration limit and fee structure is reviewed annually. When undertaking the annual review process the Board considers advice from its external consultants which includes a comparison of the fees paid to non-executive directors of other comparable A-REITs.

BOARD / COMMITTEE	ROLE	CURRENT ANNUAL FEE
ABP Board	Chairman	\$200,000
ABP Board	Member	\$71,000
Audit & Risk Committee	Chairman	\$20,000
Audit & Risk Committee	Member	\$10,000
Compliance Committee	Chairman	\$10,000
Due Diligence Committee	Chairman	\$15,000
Due Diligence Committee	Member	\$5,000
Remuneration & Nomination Committee	Chairman	\$12,000
Remuneration & Nomination Committee	Member	\$8,000
ASFML Board	Member	\$9,000

8.7 Continuous disclosure

8.7.1 Information available from ASX and ASIC

Both ABP and ASF are "disclosing entities" under the Corporations Act and are subject to regular reporting and disclosure obligations under the Corporations Act. ABP is subject to additional obligations under the Listing Rules. These obligations require ABP to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, ABP has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of ABP securities. Copies of documents lodged with ASX are available at www.asx.com.au. Copies of documents lodged with ASIC may be obtained from, or inspected at, an ASIC office.

8.7.2 Information available from ABP and ASF

The following documents will be made available:

- for inspection at the registered office of the ABP Entities and the ASF Entities at Australia Square, Level 34, 264-278 George Street, Sydney NSW 2000 (between 9:00 am and 5:00 pm (Sydney time) on Business Days);
- at www.abacusproperty.com.au; and
- on request free of charge by contacting the Registry on 1300 139 440 between 9:00 am and 5:00 pm (Sydney time) Monday to Friday:
 - the Annual Report of each of ABP and ASF most recently lodged with ASIC;
 - any half-year financial report for ABP or ASF subsequently lodged with ASIC between the date of the relevant Annual Report and the date of this Explanatory Memorandum;
 - any continuous disclosure notices given by the ABP Entities or the ASF Entities between the date of the Report and the date of this Explanatory Memorandum; and
 - each document incorporated by reference in this Explanatory Memorandum.

Information relating to the Merger and the New Stapled Securities that is not materially adverse or required to be included in a supplementary disclosure document may be updated and made available to You on the Abacus Property Group website at www.abacusproperty.com.au. You may also contact Abacus Property Group on the number set out inside the back cover of this Explanatory Memorandum to obtain a paper copy of the information free of charge.

9 RISKS

There are a number of risk factors associated with investing in both property related businesses and listed securities that may have an impact on Your investment in the Merged Group. Some of the key risks are outlined below, however this Section does not purport to be exhaustive. The future level of income distributions to investors, the value of the Merged Group's businesses and assets, and the market value of securities quoted on the ASX may be affected adversely by any of these risk factors.

9.1 General business risks for the Merged Group

An investment in the Merged Group will be subject to general business risks referable to the businesses the Merged Group participates in (but which are not unique to ABP and ASF). These risks may include:

Economic conditions	<p>Both property investments and ASX security prices will be heavily influenced by changes in economic conditions, particularly changes to interest rates and inflation, employment levels, consumer spending and property market sentiment as well as the position of the Merged Group in the ASX index. In recent times, trading in ASX securities has been significantly affected by the GFC, particularly increased volatility, risks of default in Eurozone countries and the availability of bank funding. There is a risk that similar global events will impact the performance of the Merged Group.</p> <p>The above factors may also impact the demand for property and leasing, property valuations and the timing of potential sales and acquisitions. The performance of property assets will also be significantly influenced by the availability of alternative property offerings provided by competitors of the Merged Group.</p>
Funding	<p>The property investment and development sector is highly capital intensive. The ability of the Merged Group to raise funds (equity or debt) on acceptable terms will depend on a number of factors including capital market conditions, general economic and political conditions, the Merged Group's performance, and credit availability (which has been and continues to be constrained since the GFC). Changes in the cost of current and future borrowings and equity raisings may impact the earnings of the Merged Group, and impact the availability of funding for new acquisitions, projects or increase the refinancing risks as debt facilities mature.</p> <p>The Merged Group uses debt funding provided by major banks. Any downgrade of the Merged Group's bank credit assessment may increase overall debt funding costs and adversely affect the Merged Group's access to debt funding and the terms on which that funding is offered.</p>
Regulatory issues and changes in law	<p>There is a usual business risk of regulatory changes. From a property perspective, returns may be adversely impacted by changes to sustainability and environmental requirements and potentially the costs associated with the carbon pricing or the introduction of new taxes referable to real estate.</p>
Taxation	<p>Changes in tax law (including the proposed carbon tax), or changes in the way taxation laws are interpreted in the jurisdictions in which the Merged Group operates, may impact the future tax liabilities of the Merged Group.</p> <p>In addition, under current income tax legislation, AT, AIT and ASPT are not liable for Australian income tax, including capital gains tax, provided they distribute all their respective taxable incomes. Should the actions or activities of AT, AIT and ASPT cause them to fall within the operative provisions of Division 6B or 6C of the Income Tax Assessment Act 1936, they may be taxed on their respective taxable incomes at a rate which is equivalent to the corporate income tax rate of 30%. It is the intention of the directors that the Merged Group will be managed so that neither Division 6B nor 6C will apply to AT, AIT or ASPT.</p>
Litigation or disputes	<p>Disputes or litigation may arise from time to time in the course of normal business activities of the Merged Group. There is a risk that material or costly disputes or litigation could affect the financial performance of the Merged Group and the value of New Stapled Securities.</p>

Insurance	<p>While the Merged Group will carry customary property insurance, there are types of losses (such as from floods and earthquakes) that are generally not insured at full replacement cost or that are insured subject to larger deductibles or insurances may not be able to be obtained.</p> <p>Additionally, the Merged Group will face risks associated with the financial strength of its insurers to meet their indemnity obligations when called upon which could lead to an adverse effect on earnings.</p>
Environment	<p>The Merged Group may from time to time be exposed to a range of environmental risks including those resulting from soil and water contamination, construction, cultural heritage (e.g. aboriginal) and flora and fauna (e.g. native vegetation). In addition, there is a risk that property owned by or projects undertaken by the Merged Group from time to time may be contaminated by materials harmful to human health (such as asbestos or other hazardous materials). In these situations, the Merged Group may be required to undertake remedial works on contaminated sites and may be exposed to third party compensation claims and environmental liabilities.</p> <p>ABP and ASF are aware of potential asbestos contamination issues at a small number of their sites. These include the Camellia site (refer to Section 7.1.4), which was previously used as an asbestos factory. ABP and ASF do not expect the costs of remediation (if required) will be material. Although ABP and ASF are not currently aware of any other material environmental risks, there is a risk of the discovery of, or incorrect assessment of costs associated with, environmental contamination on any of the Merged Group's sites.</p>
Accounting Standards Changes	<p>Changes to accounting standards may affect the recognition of profits or the recognition of assets and liabilities of the reporting entity and this could impact the period on period comparability of the Merged Group's performance. This may impact the perceived value of the business which in turn may impact the price at which New Stapled Securities trade on ASX. The pro forma impacts of AASB 10 and AASB 11 are set out in Section 10.</p>

9.2 Risks associated with ownership of property assets generally

An investment in the Merged Group will be subject to the risks of ownership, development and management of the type of assets it invests in. These risks are not unique to ABP and ASF and may include:

Interest rates	<p>Adverse fluctuations in interest rates, to the extent that they are not hedged or forecast, will impact on the earnings available for distribution to Merged Group Stapled Securityholders. The Merged Group intends to utilise interest rate derivatives and to a lesser extent fixed rate borrowings to protect a portion of the Merged Group's forecast interest expense from floating rate exposures. Further information about interest rate management for the Merged Group is set out in Section 6.4.</p> <p>The fair value of interest rate swaps is recognised as an asset or liability. Any gain or loss arising from the change in fair value of interest rate swaps are taken directly to profit and loss for the year.</p>
Returns from investment	<p>Returns from investment in real property depend largely upon the amount of rental income that can be generated from the property, the expenses incurred in operations, including the management and maintenance of the property, as well as changes in the market value of the property. Factors which may adversely impact these returns include:</p> <ul style="list-style-type: none">• the overall conditions in the national and local economy, such as growth in gross domestic product, employment trends and the level of inflation and interest rates;• local real estate conditions, such as the level of demand for and supply of retail, commercial and industrial space;• the perception of prospective tenants of the attractiveness, practicality and convenience of the rental space;• changes in tenancy laws and obtaining of required planning approvals;• external factors including major world events such as war, terrorist attacks or force majeure events;• unforeseen capital expenditure;• supply of new properties and other investment assets;• cost of property outgoings and whether these can be recovered from tenants; and• investor demand/liquidity in investments.
Leasing terms and tenant defaults	<p>The future financial performance of the Merged Group will depend, in part, on its ability to continue to lease existing retail, office, industrial, storage and hotel space that is vacant or becomes vacant on expiry of leases on economically favourable terms. In addition, the ability to lease new asset space in line with expected terms will impact on the financial performance of the Merged Group.</p>
Ability of major tenants to meet rental commitments	<p>The ability of major tenants to meet their rental and other contractual commitments to the Merged Group (such as in situations of insolvency or closure of their businesses) may have an adverse impact on the income from properties, which may result in an adverse impact on the financial performance of the Merged Group.</p>
Liquidity of property investments	<p>The nature of investments in property assets may make it difficult to generate liquidity in the short term if there is a need to respond to changes in economic or other conditions.</p>
Fixed nature of significant costs	<p>Significant expenditures associated with each investment, such as mortgage payments, maintenance costs, employee costs and taxes, are generally not reduced when circumstances cause a reduction in income from the investment or business operation. The value of an asset owned by the Merged Group may be adversely affected if the income from the asset declines and other related expenses remain unchanged.</p>

Acquisition of properties	<p>A key element of the Merged Group's future strategy will involve the acquisition of assets to add to the property investment portfolio. There are inherent risks in such acquisitions. These risks could include unexpected or other latent issues such as the existence of asbestos or other hazardous materials or environmental liabilities, property design or construction defects.</p> <p>The past performance of assets in the Merged Group does not guarantee their future performance. Any deterioration in the local and regional property markets where the Merged Group properties are held could adversely affect the value of those properties and the net income generated by them.</p>
Future Acquisitions and Expansion	<p>ABP intends to make further acquisitions of self storage assets for the purpose of continuing the capital growth of ASF. ASFML may also develop and expand the lettable area at a number of ASF's existing facilities. Risks involved with the development of assets may be higher than those involved with the ownership and operation of established properties. These risks may include:</p> <ul style="list-style-type: none">• the timing, construction and completion of development;• contamination;• obtaining required planning approvals;• market acceptance of a development;• the ability to lease projects where there are competing developments;• the availability of project financing on favourable terms;• tenant default on leasing pre-commitments; and• possible delays due to major weather or labour force disruption.

10 FINANCIAL INFORMATION

10.1 Introduction

This Section sets out the pro forma financial information used in presenting the pro forma consolidated statement of financial position, income statement and underlying profit of the Merged Group.

Basis of preparation

The pro forma financial information used in this Section has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act. It is based on ABP's, AHF's, ADIFIL's, AMSF's and ASF's respective annual financial statements for the year ended 30 June 2011 each of which has been audited by Ernst & Young.

The accounting policies used to prepare the pro forma financial information of the Merged Group are based on the accounting policies of ABP (which are consistently applied by AHF, ADIF II, AMSF and ASF), contained in the financial statements for the year ended 30 June 2011 unless otherwise noted. AHF, ADIF II, AMSF and ASF's financial statements can be accessed on Abacus Property Group's website at www.abacusproperty.com.au. The accounting policies of the Merged Group will be the same as the accounting policies of ABP going forward.

The ABP Board and the ASF Board, as a matter of policy, does not provide forecast financial information and consider that the pro forma financial information at 30 June 2011 provides a reasonable basis for securityholders to assess the financial position and results of the Merged Group. The carrying values of ABP's, ASF's, AHF's, ADIF II's and AMSF's assets and liabilities have been reviewed subsequent to 30 June 2011, including where relevant the carrying value of investment properties and movement in market value of interest rate derivatives, and there have been no material transactions or net fair value movements which would require the pro forma consolidated statement of financial position to be updated. No acquisitions or disposals of property subsequent to 30 June 2011 have been incorporated into the pro forma consolidated statement of financial position. The ABP Board and the ASF Board are not aware of any material events since 30 June 2011 other than those disclosed in this Section 10 which would cause these financial statements to be materially different.

The pro forma 30 June 2011 consolidated underlying profit of the Merged Group has been based on audited 30 June 2011 financial statements. The presentation of this pro forma information aggregates related income and expense items to give users a more readily comprehensible and comparable measure of the earnings composition of the entities in the Merged Group. There have been no significant changes to either ABP's or ASF's occupancy and rental profiles that in the Director's opinion undermines the reasonableness of the reported pro forma income statement.

The Directors of ABP have elected to adopt AASB 10 and AASB 11 in this pro forma financial information because:

- the new standards give new and more explicit guidance regarding the assessment of control and the consolidation of entities so deemed to be controlled; and
- ABP has adopted AASB 10, 11 and 12 for its 31 December 2011 financial statements. Adoption of these standards for pro forma reporting purposes informs stakeholders now of the statutory reporting impacts of the new standards and makes the Merged Group's pro forma financial statements readily comparable to future reporting periods.

A description of these standards and their impact on ABP is set out in Section 10.3.

10.2 Independent review

Lawler Corporate Finance Pty Limited and Ernst & Young Transaction Advisory Services Limited in their respective capacities as Independent Expert and Investigating Accountant have reviewed the 30 June 2011 historical pro forma financial information. Lawler's Independent Expert's Report is summarised in Section 2 and included in Attachment 3.

Ernst & Young Transaction Advisory Services Limited has undertaken an independent review of the pro forma financial information and assumptions contained in Sections 10.3 to 10.9. The scope of the review does not include Section 10.10. The resulting unqualified Investigating Accountant's Report is contained in Attachment 1.

10.3 Adoption of AASB 10, AASB 11 and AASB 12

As set out in 10.1 the pro forma financial information in this Section has been prepared on the basis that AASB 10 and AASB 11 have been adopted. The pro forma financial information is for presentation purposes only and is intended to demonstrate what the financial position would have been had those standards been operative from 30 June 2011 and the income statement of ABP would have been had those standards been operative from 1 July 2010. When AASB 10, AASB 11 and AASB 12 are adopted, the comparative financial statements for the preceding year will be adjusted on the basis that those accounting standards were operative for the period.

A summary of AASB 10, AASB 11 and AASB 12 is set out below.

STANDARD	DESCRIPTION	APPLICATION TO PRO FORMA FINANCIAL INFORMATION
AASB 10 – Consolidated Financial Statements	<p>AASB 10 determines the basis upon which (a) an investor consolidates an investee entity and (b) the presentation and disclosure requirements for consolidated financial reporting.</p> <p>Per AASB 10 an investor controls an investee entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</p> <p>When assessing control the following three elements have to be present:</p> <ul style="list-style-type: none"> (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. <p>The standard sets out more expansive criteria for the consolidation and deconsolidation of entities at each reporting period. Facts and circumstances that will need to be considered when conducting periodic testing for consolidation include:</p> <ul style="list-style-type: none"> - the purpose and design of the entity; - voting rights (both existing and potential and their substantive power); - contractual rights; - variable returns; and - appointment as responsible entity. 	<p>Leads to the consolidation of AHF, ADIF II and AMSF^{1,2,3}.</p> <p>Additionally, ASF would also be consolidated under AASB 10 however as ASF is the subject of the Merger, it has not been included in the pro forma AASB 10 consolidation at Sections 10.5 and 10.8 but rather has been consolidated through the pro forma Merger impact set out in Sections 10.7 and 10.9. The net effect is materially the same (see Section 10.11)⁴.</p> <p>Impacts on the Merged Group's 30 June 2011 pro forma financial information are:</p> <ul style="list-style-type: none"> - Increase in Total Assets; - Increase in Total Liabilities; - Decrease in Net Tangible Assets attributable to ABP securityholders; - No change in Covenant Gearing for bank covenant purposes; - Increase in net profits attributable to ABP; securityholders; - No change in underlying profits.

STANDARD	DESCRIPTION	APPLICATION TO PRO FORMA FINANCIAL INFORMATION
AASB 11 - Joint arrangements	AASB 11 replaces IAS 31 Interest in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore, the determination of whether joint control exists or may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for joint arrangements is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the ventures a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	No significant impact to current equity accounting of joint ventures.
AASB 12 - Disclosure of interests in other entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	No significant impact.

1. AHF: Based upon work undertaken by ABP pursuant to assessing the impacts of AASB 10, ABP is deemed under these new standards to have control of AHF based upon the aggregate impact of (a) ABP's role as responsible entity of AHF and (b) the size and variable nature of returns arising from ABP's loans to AHF (as the loans provided by ABP to AHF rank pari passu for downside but not on upside at fund wind up).
2. ADIF II: Based upon work undertaken by ABP pursuant to assessing the impacts of AASB 10, ABP is deemed under these new standards to have control of ADIF II based upon the aggregate impact of (a) ABP's role as responsible entity of ADIF II (b) the size and variable nature of returns arising from ABP's loans to ADIF II (as the AWCF provided by ABP to ADIF II ranks pari passu on downside, but not upside, at wind up) and (c) the capital and income guarantees made by ABP to unitholders of ADIF II under the ADIF II offer documents.
3. AMSF: Based upon work undertaken by ABP pursuant to assessing the impacts of AASB 10, ABP is deemed under these new standards to have control of AMSF based upon the aggregate impact of (a) ABP's role as responsible entity of AMSF and (b) ABP's 30% direct interest in the fund and the relative dispersion of the remaining interests not held by ABP.
4. ASF: Based upon work undertaken by ABP pursuant to assessing the impacts of AASB 10, ABP is deemed under these new standards to have control of ASF based upon the aggregate impact of (a) ABP's role as responsible entity of ASF and (b) the combined equity and working capital loan interest which can potentially deliver ABP a c36% equity interest in ASF.

10.4 ABP pro forma consolidated statement of financial position

Basis of preparation

This Section sets out the ABP 30 June 2011 pro forma consolidated statement of financial position. It has been extracted from ABP's audited 30 June 2011 financial statements and incorporates the pro forma adjustments, presented hereafter.

	NOTES	ABP 30 JUNE 2011 \$'000	PRO FORMA DISTRIBUTION ADJUSTMENTS 30 JUNE 2011 \$'000	ABP POST DISTRIBUTION PRO FORMA 30 JUNE 2011 \$'000
Assets				
Cash	1	45,504	(14,066)	31,438
Property loans and other financial assets		415,096	-	415,096
Inventory		80,478	-	80,478
Investment and other properties, plant and equipment		863,583	-	863,583
Equity accounted investments		127,287	-	127,287
Intangible and deferred tax assets		47,654	-	47,654
Other assets		22,020	-	22,020
Total assets		1,601,622	(14,066)	1,587,556
Liabilities				
Interest-bearing loans and borrowings		446,565	-	446,565
Derivatives at fair value		27,360	-	27,360
Other liabilities		34,379	-	34,379
Total liabilities		508,304	-	508,304
Net assets		1,093,318	(14,066)	1,079,252
Equity				
Net contributed capital	1	1,143,253	17,159	1,160,412
Reserves		2,656	-	2,656
Retained earnings	1	(66,346)	(31,225)	(97,571)
Equity attributable to ABP securityholders		1,079,563	(14,066)	1,065,497
External non-controlling interests	2	13,755	-	13,755
Total equity		1,093,318	(14,066)	1,079,252
Key balance sheet metrics				
Net asset backing per security attributable to securityholders (\$)	2	2.85	(0.10)	2.75
ABP securities ('000)	1	378,484	8,268	386,752
NTA per security attributable to securityholders (\$)	2	2.73	(0.10)	2.63
Group gearing (%)		25.8%	0.9%	26.7%
Covenant gearing (%)		30.7%	0.9%	31.6%

NTA per security attributable to securityholders is based on the equity attributable to ABP securityholders (that is excluding non-controlling interests) less intangible and deferred tax assets divided by the number of ABP securities.

Pro forma adjustments

1. Distribution: On 1 July 2011, a distribution of 8.25 cents per ABP security totaling \$31.2m was declared. The distribution was paid on 15 August 2011 and \$17.2m of the distribution was reinvested in accordance with ABP's dividend re-investment plan. This pro forma adjustment adjusts for the net distribution paid post year end to ensure that the ABP balance is prepared on a comparable basis to ASF, which has provided for its final quarter's distribution in its 30 June 2011 audited financial statements.
2. Non-controlling interests: Non-controlling interests relating to ABP's retail asset owning trust with Metcash and the Abacus Jigsaw Trust have been adjusted for in the computation of net asset backing and NTA per ABP securityholder.

After allowing for the pro forma adjustments, the NTA attributable to securityholders per ABP security reduces from \$2.73 to \$2.63 and Group Gearing increases from 25.8% to 26.7%.

10.5 ABP pro forma consolidated statement of financial position post adoption of AASB 10

Basis of preparation

This Section sets out the impact of the adoption of AASB 10, resulting in the consolidation of AHF, ADIF II and AMSF, by ABP on the 30 June 2011 statement of financial position. The impact of the consolidation of ASF on the pro forma financial statements as required under AASB 10 is set out in Section 10.7, together with the pro forma impact on the 30 June 2011 financial statements of the proposed Merger of ABP and ASF, giving effect to a business combination.

		ABP POST DISTRIBUTION PRO FORMA 30 JUNE 2011 \$'000	AASB 10 PRO FORMA ADJUSTMENTS				ABP AASB 10 EXCLUDING ASF PRO FORMA 30 JUNE 2011 \$'000
	NOTES		AHF 30 JUNE 2011 \$'000	ADIF II 30 JUNE 2011 \$'000	AMSF 30 JUNE 2011 \$'000	ADJUST- MENTS 30 JUNE 2011 \$'000	
Assets							
Cash		31,438	9,407	1,866	2,287	-	44,998
Property loans and other financial assets	1,2,3,4	415,096	-	7,382	-	(216,114)	206,364
Inventory		80,478	499	-	-	-	80,977
Investment and other properties, plant and equipment		863,583	155,587	178,570	62,800	-	1,260,540
Equity accounted investments	4	127,287	-	-	-	(2,715)	124,572
Intangible and deferred tax assets		47,654	3,497	-	-	-	51,151
Other assets		22,020	3,472	520	345	-	26,357
Total assets		1,587,556	172,462	188,338	65,432	(218,829)	1,794,959
Liabilities							
Interest-bearing loans and borrowings		446,565	68,372	90,964	34,000	-	639,901
Interest-bearing loans and borrowings owed to related parties	1,2,3,4	-	94,572	95,373	20,757	(210,702)	-
Derivatives at fair value	3	27,360	6,024	3,359	970	(10,000)	27,713
Deferred tax liabilities		-	-	4,471	-	-	4,471
Other liabilities	3	34,379	9,154	2,810	655	49,902	96,900
Total liabilities		508,304	178,122	196,977	56,382	(170,800)	768,985
Net assets		1,079,252	(5,660)	(8,639)	9,050	(48,029)	1,025,974
Equity / (Net liabilities)							
Net contributed capital		1,160,412	45,611	49,902	17,806	(113,319)	1,160,412
Reserves		2,656	1,578	-	-	(1,578)	2,656
Adjustments to retained earnings arising from consolidation	2,3	-	-	-	-	(83,433)	(83,433)
Retained earnings		(97,571)	(52,849)	(58,541)	(8,756)	120,146	(97,571)
Equity attributable to ABP securityholders		1,065,497	(5,660)	(8,639)	9,050	(78,184)	982,064
External non-controlling interests	2,4	13,755	-	-	-	30,155	43,910
Total equity / (net liabilities)		1,079,252	(5,660)	(8,639)	9,050	(48,029)	1,025,974

		ABP POST DISTRIBUTION PRO FORMA 30 JUNE 2011 \$'000	AASB 10 PRO FORMA ADJUSTMENTS				ABP AASB 10 EXCLUDING ASF PRO FORMA 30 JUNE 2011 \$'000
	NOTES		AHF 30 JUNE 2011 \$'000	ADIF II 30 JUNE 2011 \$'000	AMSF 30 JUNE 2011 \$'000	ADJUST- MENTS 30 JUNE 2011 \$'000	
Key balance sheet metrics							
Net asset backing per security attributable to securityholders (\$)	2,3	2.75	-	-	-	-	2.54
ABP securities ('000)		386,752	-	-	-	-	386,752
NTA per security attributable to securityholders (\$)	2,3	2.63	-	-	-	-	2.41
Group gearing (%)		26.7%					26.7%
Covenant gearing (%)		31.6%	-	-	-	-	31.6%

AASB 10 adjustments

1. Elimination of inter-entity payables and receivables arising from the ordinary operations of ABP, AHF, ADIF II and AMSF.
2. Elimination of \$94.6m loan and the reversal of a \$5m provision for impairment of interest bearing loans made by ABP and its related parties to AHF. \$7m of this amount is an unsecured loan. The remaining \$87.6m of this balance relates to a working capital loan with a 2016 maturity date, which in the absence of repayment at maturity or earlier, ranks equally with securityholders with respect to downside (but not upside) in the event of winding up. Upon consolidation of AHF, the working capital loan is effectively settled at its fair value at its deemed control date under AASB 10 and ABP's pari passu share of the losses attributed to the loans at 30 June 2011 is \$34.9m which has in accordance with AASB 10 been taken to retained earnings. The net assets of AHF which are attributable to securities not owned by ABP are shown as non-controlling interests of \$23.8m.
3. The elimination of \$95.4m of interest bearing loans made by ABP to ADIF II. As at 30 June 2011, ABP advanced the following loans to ADIF II: (a) \$47.4m interest bearing working capital loan with a 2018 maturity and (b) a \$48m second ranking interest bearing loan maturing in 2018, which has been used to collateralise the income and capital guarantees ABP has made to ADIF II unitholders under existing ADIF II offer documents. Given the ABP guarantees, the non-controlling interests in ADIF II is, under AASB 10, carried as a non-current other liability of \$49.9m at 30 June 2011, representing the current value of the capital and yield guaranteed amounts as if the capital guarantee was payable now (i.e. on a wind up basis), not the estimated liability of \$10m recognised in ABP's audited 30 June 2011 financial statements. The difference of \$48.5m between the estimated provision of the guarantee liability of \$10m and the accumulated losses of ADIF II of \$58.5m, has been taken to retained earnings in accordance with AASB 10. This treatment is despite the guarantee to ADIF II unitholders not being payable until 2013 (\$11m in respect of A class units) and 2016 (\$44m in respect of class B and class C units).
4. Elimination of the \$20.8m ordinary interest bearing loan from ABP to AMSF and ABP's \$2.7m equity accounted investment in AMSF. The net assets of AMSF which are attributable to securities not owned by ABP are shown as a non-controlling interests of \$6.3m.

As a result the consolidation of AHF and ADIF II, an adjustment of \$83.4m has been made to retained earnings which consists of (a) the effective settlement of the working capital loan to AHF (\$34.9m) at its fair value at the deemed control date rather than its estimated recoverable value and (b) the recognition of the liability to external ADIF II unitholders (\$48.5m) as a result of the capital guarantee measured at the current value of the capital and yield guaranteed amounts, rather than the estimated liability under the guarantee agreements in 2013 and 2016.

In the statutory accounts to be prepared for the period ended 31 December 2011, the adoption of AASB 10 is effective from 1 July 2010 (rather than 30 June 2011 as reflected in the statement of financial position in this Explanatory Memorandum) and will result in an adjustment of approximately \$93m to retained earnings, rather than the \$83.4m reported in this Explanatory Memorandum. The statement of financial position at 30 June 2011 is not affected.

The consolidation of AHF, ADIF II and AMSF reduces the pro forma NTA of ABP from \$2.63 to \$2.41. Group Gearing remains at 26.7% because the AASB 10 accounting consolidations are specifically excluded from ABP's gearing covenants for banking purposes (as this covenant only includes assets and liabilities owned by ABP).

The ABP AASB 10 excluding ASF pro forma NTA per security of \$2.41 has been used in formulating ABP's Merger offer (Section 5.3) and has been used by the Independent Expert in its assessment of the transaction (Section 2 and Attachment 3).

10.6 ASF pro forma consolidated statement of financial position

Basis of preparation

This Section sets out the ASF 30 June 2011 consolidated statement of financial position based on ASF's audited 30 June 2011 financial statements.

	ASF 30 JUNE 2011 \$'000
Assets	
Cash	3,982
Investment and other properties, plant and equipment	331,943
Other assets	978
Total assets	336,903
Liabilities	
Interest-bearing loans and borrowings	176,012
Interest-bearing loans and borrowings owed to related parties	33,589
Derivatives at fair value	931
Deferred tax liabilities	4,329
Other liabilities	6,524
Total liabilities	221,385
Net assets	115,518
Equity	
Net contributed capital	82,977
Reserves	(2,543)
Retained earnings	35,084
Equity attributable to ASF securityholders	115,518
External non-controlling interests	-
Total equity	115,518
Key balance sheet metrics	
Net asset backing per security attributable to securityholders (\$)	1.29
Pro forma ASF securities ('000)	111,392
NTA per security attributable to securityholders (\$)	1.29
Group Gearing (%)	51.7%
Loan to valuation ratio for ASF banking purposes	53.6%

Loan to valuation ratio for ASF banking purposes is defined as the drawn bank debt divided by the bank accepted valuations of the properties secured under the bank facilities.

No pro forma adjustments have been made to the net assets of ASF at 30 June 2011 and no adjustment has been made to the net assets to reflect the Merger Distribution payable to ASF securityholders if the Merger is approved. However, in calculating the pro forma net asset backing per security and the pro forma NTA per security attributable to securityholders, we have notionally converted the Abacus Working Capital Facility (AWCF) to equity because the AWCF shares in the upside and downside equity value of the Fund on winding up. The calculation of the pro forma NTA per security is set out in the table below:

Audited ASF net assets (\$000)	115,518
Add back AWCF (\$000)	28,669
Pro forma ASF net assets (\$000)	144,187
Actual ASF securities on issue (000)	87,276
AWCF notionally converted to equity at \$1.19 (000)	24,091
Pro forma ASF securities (000)	111,367
Pro forma NAV/ NTA per security	\$1.29

The ASF pro forma NTA per security of \$1.29 has been used in formulating ABP's Merger offer (Section 5.3).

The pro forma NTA per security of \$1.29 does not include any provision for performance fees, sales management fees, reduced management fees and termination costs. Refer to Section 7.2.6 for further details on these fees and the circumstances under which they may become payable.

10.7 Merged Group pro forma consolidated statement of financial position

Basis of preparation

This Section sets out the Merged Group's pro forma consolidated statement of financial position. It is the combination of the ABP AASB 10 pro forma consolidated statement of financial position (Section 10.5) plus the ASF pro forma consolidated statement of financial position (Section 10.6) plus necessary eliminations and Merger adjustments (business combination accounting adjustments) arising from the consolidation of ASF under the Merger offer.

	NOTES	ABP AASB 10 EXCLUDING ASF PRO FORMA 30 JUNE 2011 \$'000	ASF 30 JUNE 2011 \$'000	PRO FORMA ADJUST- MENTS 30 JUNE 2011 \$'000	MERGED GROUP PRO FORMA 30 JUNE 2011 \$'000
Assets					
Cash	1,4	44,998	3,982	(11,812)	37,168
Property loans and other financial assets	2,3	206,364	-	(37,878)	168,486
Inventory		80,977	-	-	80,977
Investment and other properties, plant and equipment		1,260,540	331,943	-	1,592,483
Equity accounted investments	3	124,572	-	(18,515)	106,057
Intangible and deferred tax assets		51,151	-	-	51,151
Other assets		26,357	978	-	27,335
Total assets		1,794,959	336,903	(68,205)	2,063,657
Liabilities					
Interest-bearing loans and borrowings		639,901	176,012	-	815,913
Interest-bearing loans and borrowings owed to related parties	2	-	33,589	(33,589)	-
Derivatives at fair value	1,4	27,713	931	(931)	27,713
Deferred tax liabilities		4,471	4,329	-	8,800
Other liabilities		96,900	6,524	-	103,424
Total liabilities		768,985	221,385	(34,520)	955,850
Net assets		1,025,974	115,518	(33,685)	1,107,807
Equity					
Net contributed capital	1,3,5	1,160,412	82,977	(10,797)	1,232,592
Reserves		2,656	(2,543)	2,543	2,656
Adjustments to retained earnings arising from consolidation	5c	(83,433)	-	9,653	(73,780)
Retained earnings		(97,571)	35,084	(35,084)	(97,571)
Equity attributable to ABP securityholders		982,064	115,518	(33,685)	1,063,897
External non-controlling interests		43,910	-	-	43,910
Total equity		1,025,974	115,518	(33,685)	1,107,807

The liabilities of the pro forma Merged Group at 30 June 2011 were \$955.9m as shown in the above table, of which \$82.7m were classified as current liabilities and \$873.2m were classified as non current liabilities.

	NOTES	ABP AASB 10 EXCLUDING ASF PRO FORMA 30 JUNE 2011 \$'000	ASF 30 JUNE 2011 \$'000	PRO FORMA ADJUST- MENTS 30 JUNE 2011 \$'000	MERGED GROUP PRO FORMA 30 JUNE 2011 \$'000
Key balance sheet metrics					
Net asset backing per security attributable to securityholders (\$)		2.54	-	-	2.51
ABP securities ('000)	5b	386,752	-	37,579	424,331
NTA per security attributable to securityholders (\$)		2.41	-	-	2.39
Group gearing (%)		26.7%	-	-	32.7%
Covenant gearing (%)		31.6%	-	-	37.6%

Pro forma adjustments

- Cash payments. These include a Merger Distribution paid to ASF securityholders (other than ABP) of \$0.14 per security if the Merger goes ahead, totaling \$9.8m and transaction costs associated with this Merger estimated to be \$1.1m. A further \$0.9m of cash has been assumed to be spent in restructuring the A\$ swap book in the ASF so that new A\$ swaps can be executed at current market rates.
- Elimination of the interest bearing working capital facility and loan to ASF of \$28.7m (maturing 2018) and \$4.9m (maturing 2013) respectively advanced by ABP.
- Elimination of ABP's 17.4m securities in ASF carried at \$22.8m at 30 June 2011.
- Settlement of existing ASF A\$ fixed interest rate swap at its carrying value of \$0.9m at 30 June 2011.
- Eliminations to balances comprising total equity:
 - Elimination of ASF's contributed equity balance of \$83m on Merger with ABP.
 - Issue of 37.6m ABP securities in accordance with the scrip and cash offer, less estimated transaction costs of \$1.1m which have been charged to equity as a capital raising cost. For accounting purposes the issue of ABP securities is recorded at their current market price (assumed in the pro forma consolidated statement of financial position at \$1.95) despite the scrip offer being based on ABP's NTA.
 - The 30 June 2011 pro forma consolidated statement of financial position for ASF is assumed to approximate its fair value net asset value at transaction date. The difference between the current market price of the ABP scrip plus the Merger Distribution issued to ASF unitholders of \$83.1m in exchange for the control of ASF's net assets attributable to non-controlling interests (external securityholders) of \$90.5m gives rise to a gain upon Merger of \$7.4m, which is recognized directly in equity. There is a further \$2.3m gain on consolidation of ASF.

The Merger of ABP and ASF results in the NTA of the merged group declining from \$2.41 to \$2.39 (primarily due to the Merger Distribution) and Group Gearing increases from 26.7% to 32.7%, which is still within the target of 30-35%. Covenant Gearing will increase from 31.6% to 37.6%, which is well within the existing bank gearing covenant limit of 50%.

The liabilities of the proforma Merged Group at 30 June 2011 were \$955.9m of which \$82.7m were classified as current liabilities and \$873.2m were classified as non current liabilities.

10.8 ABP pro forma consolidated income statement post adoption of AASB 10

Basis of preparation

This Section sets out the ABP pro forma consolidated income statement based upon the 30 June 2011 financial results of ABP and the adoption of AASB 10 resulting in the consolidation of AHF, ADIF II and AMSF on 1 July 2010 (deemed date of control). The impact of the consolidation of ASF on the pro forma consolidated income statement is required under AASB 10 but has been set out in Section 10.9 together with the pro forma impact of the proposed Merger between ABP and ASF.

INCOME STATEMENT	NOTES	ABP ACTUAL FY11 \$'000	PRO FORMA ADJUSTMENTS				ABP AASB 10 EXCLUDING ASF PRO FORMA \$'000
			AHF ACTUAL FY11 \$'000	ADIF II ACTUAL FY11 \$'000	AMSF ACTUAL FY11 \$'000	ADJUST- MENTS \$'000	
Net rental income	1b	58,896	342	15,399	4,892	729	80,258
Net storage income		1,052	-	-	-	-	1,052
Net hotel income		797	11,886	-	-	-	12,683
Finance income		23,263	377	73	64	-	23,777
Funds management income	1a,b,c	20,438	-	-	-	(15,020)	5,418
Net sale of inventory		14,906	-	-	-	-	14,906
Net gains from asset realisations		4,648	239	1,043	-	-	5,930
Share of profit / (loss) from equity accounted investments		(3,413)	-	-	-	(388)	(3,801)
Other		3,797	176	-	-	-	3,973
Total income		124,384	13,020	16,515	4,956	(14,679)	144,196
Depreciation and amortisation expense		(2,100)	(4,483)	-	-	-	(6,583)
Net change in fair value of derivatives	2	(8,458)	422	1,322	398	6,000	(316)
Net change in fair value of investment assets held at balance date		(23,472)	335	(3,124)	973	-	(25,288)
Finance costs	1c	(33,912)	(10,215)	(14,657)	(4,302)	11,759	(51,327)
Debt forgiveness and provisioning	3	(16,000)	11,000	-	-	5,000	-
Administrative and other expenses	1a,4	(22,027)	(1,732)	(705)	(373)	(1,932)	(26,769)
Profit/ (loss) before tax		18,415	8,347	(649)	1,652	6,148	33,913
Income tax		(571)	733	(302)	-	-	(140)
Profit/ (loss) after tax		17,844	9,080	(951)	1,652	6,148	33,773
External non-controlling interests	5	(494)	-	-	-	(5,422)	(5,916)
Net profit/ (loss) attributable to securityholders		17,350	9,080	(951)	1,652	726	27,857

Pro forma adjustments

The adjustments below relate to the elimination of transactions on the consolidation of AHF, ADIF II and AMSF.

1. Elimination of funds management, property management and interest income earned by ABP in its capacity as responsible entity, property manager and lender to AHF, ADIF II and AMSF comprising:
 - a. Funds management fees of \$1.5m, nil and \$0.3m for AHF, ADIF II and AMSF respectively;
 - b. Property management fees of nil, \$0.5m and \$0.2m for AHF, ADIF II and AMSF respectively;
 - c. Interest on loans advanced of \$5.6m, \$5.6m and \$1.3m to AHF, ADIF II and AMSF respectively.
2. Reversal of the \$6m fair value charge to profit and loss made by ABP in the year to 30 June 2011, pursuant to its capital and income guarantees made to ADIF II unitholders.
3. Reversal of the \$5m impairment provision made in the 30 June 2011 financial year against loans made to AHF.
4. Given ABP's capital and income guarantees to ADIF II unitholders, the capital guarantee under AASB 10 is consolidated as a non current liability and consequently distributions paid to ADIF II unitholders (\$3.7m) are, on consolidation with ABP, treated as guarantee expenses. However, ABP has no direct obligation to pay the distributions or capital repayments due to ADIF II unitholders other than under its existing guarantee obligations in 2013 (A class units) and 2016 (B and C class units). The call on ADIF II's income guarantee to unitholders will vary year on year commensurate with ADIF II's performance relative to the guaranteed income. Likewise, the call on ADIF II's capital guarantee to unitholders will depend on ADIF II's net asset value at fund wind up (although approximately 20% of any potential guarantee exposure is payable in 2013 and has been provided for in ABP's 30 June 2011 accounts in an amount of \$10m). Accordingly, the actual final payments to ADIF II unitholders may not be as presented here under AASB 10.
5. External non-controlling interests of AHF share of retained earnings (\$4.3m) and non-controlling interests of AMSF share of retained earnings (\$1.1m) are recognised. The non-controlling interests relating to ADIF II is shown as an expense as described in paragraph (4) above.

The consolidation of the AHF, ADIF II and AMSF funds with ABP results in the pro forma consolidated profit attributable to ABP securityholders increasing from \$17.4m to \$27.9m.

10.9 Merged Group pro forma consolidated income statement

Basis of preparation

This Section sets out the Merged Group's pro forma consolidated income statement based upon:

1. the ABP pro forma consolidated income statement post adoption of AASB 10 (set out in Section 10.8);
2. the ASF consolidated income statement which has been extracted from ASF's audited 30 June 2011 financial statements;
3. consolidation of ASF arising from the Merger offer; and
4. synergy savings arising from the Merger.

INCOME STATEMENT	NOTES	ABP AASB 10 EXCLUDING ASF PRO FORMA \$'000	PRO FORMA ADJUSTMENTS			MERGED GROUP PRO FORMA \$'000
			ASF ACTUAL FY11 \$'000	ELIMINA- TIONS \$'000	SYNERGIES AND COST SAVINGS \$'000	
Net rental income		80,258	305	-	-	80,563
Net storage income		1,052	32,545	-	-	33,597
Net hotel income		12,683	-	-	-	12,683
Finance income	2a	23,777	105	(241)	(532)	23,109
Funds management income	1a	5,418	-	(3,813)	-	1,605
Net sales of inventory		14,906	-	-	-	14,906
Net gains from asset realisations		5,930	540	-	-	6,470
Share of profit / (loss) from equity accounted investments	1b	(3,801)	-	(2,225)	-	(6,026)
Other	1b	3,973	1,025	(1,367)	-	3,631
Total income		144,196	34,520	(7,646)	(532)	170,538
Depreciation and amortisation expense		(6,583)	(271)	-	-	(6,854)
Net change in fair value of derivatives		(316)	(1,341)	-	-	(1,657)
Net change in fair value of investment assets held at balance date		(25,288)	16,477	-	-	(8,811)
Finance costs	1a,2a	(51,327)	(17,309)	2,655	2,542	(63,439)
Administrative and other expenses	1a,2b	(26,769)	(8,814)	1,399	113	(34,071)
Profit/ (loss) before tax		33,913	23,262	(3,592)	2,124	55,707
Income tax	2b	(140)	(3,327)	-	(34)	(3,501)
Profit/ (loss) after tax		33,773	19,935	(3,592)	2,090	52,206
External non-controlling interests		(5,916)	-	-	-	(5,916)
Net profit/ (loss) attributable to securityholders		27,857	19,935	(3,592)	2,090	46,290

Pro forma adjustments

1. Eliminations: elimination of inter-entity profit and loss items between ABP and ASF.
 - a. Funds management fees (\$1.4m) and interest on working capital loans (\$2.4m); and
 - b. Distributions and equity accounted income received by ABP from ASF on securities owned by ABP.
2. Synergies: These are synergies expected to arise from the Merger and integration of ASF into the Merged Group. The best-estimate assumptions are based on ABP Board's assessment (based on present circumstances) of anticipated economic and market conditions and the implementation of ABP's business strategies for the Merged Group. While these best-estimate assumptions are considered to be appropriate and reasonable at the time of preparing the pro forma financial information, investors should appreciate that many factors which may affect these estimates are outside the control of ABP Board or may not be capable of being foreseen or accurately predicted. The synergy related adjustments are set out below:
 - a. Treasury related savings of \$2.0m arising from the net impacts of (i) expected refinancing savings in ASF post Merger (ii) expected hedging savings post restructure of the ASF A\$ fixed rate swap book and (iii) less the marginal cost of cash funds used in the offer.
 - b. Administrative cost savings of \$0.1m (net of tax as these savings are expected to arise within a company subject to corporate tax) arising from the ASF Merger.

The Merger of ABP and ASF results in the pro forma 30 June 2011 consolidated income attributable to Merged Group Stapled Securityholders increasing from \$27.9m to \$46.3m.

10.10 Merged Group pro forma underlying profit

Basis of preparation

Underlying profits are calculated in accordance with AICD / Finsia principles and are the principal alternative profits measure reported by ABP.

The Merged Group's pro forma 30 June 2011 consolidated underlying pro forma profit is based upon the consolidated income arising from the Merged Group's pro forma 30 June 2011 income statement (see Section 10.9) and adjusted for:

- fair value movements for properties, investments, derivatives and equity accounted investments;
- one off items not expected to reoccur; and
- pro forma consolidated income of ABP which is income which relates to the securityholders of AHF, ADIF II and AMSF and as such cannot, and do not, form part of the assessable or distributable (and therefore underlying) profits of the Merged Group.

UNDERLYING PROFIT	NOTES	ABP AASB 10 EXCLUDING ASF PRO FORMA \$'000	PRO FORMA ADJUSTMENTS			MERGED GROUP PRO FORMA \$'000
			ASF ACTUAL FY11 \$'000	ELIMINA- TIONS \$'000	SYNERGIES AND COST SAVINGS \$'000	
Net profit attributable to securityholders		27,857	19,935	(3,592)	2,090	46,290
Net change in fair value of investment properties held at balance date	1	6,158	(16,477)	-	-	(10,319)
Tax effect on net change in fair value of investment properties held at balance date	2	-	2,247	-	-	2,247
Net change in fair value of investment assets held at balance date	3	24,185	-	-	-	24,185
Net change in fair value of derivatives	4	8,458	1,341	-	-	9,799
Debt forgiveness and provisioning	5	16,000	-	-	-	16,000
Consolidated AASB 10 profits / (losses) which legally or beneficially are not owned by ABP security holders	6	(10,507)	-	-	-	(10,507)
Pro forma consolidated underlying profits		72,151	7,046	(3,592)	2,090	77,695
 Earnings (statutory profits) per Merged Group security – cents (basic and diluted)		7.5	-	-	-	11.3
Underlying earnings per Merged Group security – cents (basic and diluted)		19.4	-	-	-	19.0
Distribution per Merged Group security – cents		16.5				16.5
Weighted average securities		372,327	37,579	-	-	409,906

The pro forma underlying profit of ABP after the consolidation of AHF, ADIF II and AMSF is unchanged at \$72.2m.

Adjustments made to derive pro forma underlying profit

The underlying profit of the Merged Group is based on the following adjustments to the consolidated pro forma income attributable to Merged Group Stapled Securityholders:

1. Fair value revaluations of investment properties: aggregate fair value movements on investment properties owned by ABP and ASF are excluded from underlying profits.
2. Tax effect of fair value revaluations of investment properties: Investment properties held in trusts in the Merged Group are not required to tax effect fair value revaluations. Companies that hold investment properties are required to tax effect fair value revaluations. ASF holds \$61.2m of investment properties via the ASOL group and as such has, as required under AASB 112 Income Taxes, provided for a deferred tax liability of \$2.2m at the 30% company tax rate for investment properties revalued in the ASOL Group. The tax relating to fair value revaluations of investment property would only be payable on the sale of assets and as such has been excluded from underlying profits.
3. Fair value revaluations of investment assets: aggregate fair value movements on investment assets (owned and equity accounted) and property, plant and equipment measured at fair value by ABP and ASF are excluded from underlying profits.
4. Derivatives: interest rate swaps are used by ABP and ASF to provide fixed rate hedging for floating rate commercial bank loans. Both ABP and ASF mark to market their derivative positions each period end and take these fair value movements to the income statement. These movements are excluded from underlying profits.
5. Debt forgiveness and provisioning: This is a one off, non recurring item which related to ABP's loan to AHF in the 30 June 2011 financial year. The historically significant increase in value of the Australian dollar, the reduced domestic tourism demand and the curtailment of conference activities by many companies during this period caused Australian hotel revenues to fall. The \$16m impairment charge recognised in the 31 December 2010 half year financial statements of ABP reflected downturn in inbound tourism following the global financial crisis and its impact on AHF's operating performance.
6. AASB 10 profits: The pro forma underlying profit represents those profits assessable and distributable to ABP securityholders from assets and liabilities it owns – principally the ABP and ASF assets and liabilities. ABP securityholders do not have a legal or beneficial interest in the distributable profits of either AHF, ADIF II or AMSF other than for any direct equity interest they have in these funds. The adjustment removes consolidated profits relating to AHF and ADIFII.

EPS based on the pro forma consolidated income is higher than prior to the Merger principally because ASF recorded a significant fair value gain on investment property in the year. This is excluded for the purposes of underlying profits. The underlying profit of the merged group increases from \$72.2m to \$77.7m as a result of the Merger.

Underlying EPS marginally reduces from 19.4 cents to 19.0 cents. Part of the reason for the reduction in underlying EPS is tax payable by ASF because the U Stow It self storage assets are held by a company. The underlying EPS of the Merged Group will depend on some assumptions, including interest costs on the Merged Group's borrowings (Section 6.4) and synergies (Section 10.9).

The weighted average number of securities on issue in the enlarged ABP Group is expected to increase by 37.6m securities under the offer, being those securities issued to ASF securityholders.

10.11 Merged Group pro forma financial statements compared to financial statements at 31 December 2011

The pro forma financial statements in this Explanatory Memorandum have been prepared on the basis that (a) AASB 10 and AASB 11 have been adopted for the year ended 30 June 2011 and (b) that the Merger of ASF had occurred at 30 June 2011 to demonstrate the impact of the Merger on the Merged Group financial position and income statement. The Directors of ABP are of the view that this provides the most useful information and enables meaningful comparison to future financial statements.

The audited financial statements at 31 December 2011 will be prepared in accordance with accounting standards and will not include the Merger of ASF (if approved by securityholders) because approval will not be obtained until after 31 December 2011. Adoption of AASB 10, AASB 11 and AASB 12 at 31 December 2011 will increase the comparability of this pro forma financial information to the 31 December 2011 financial statements.

As set out in Section 10.3, ASF will be consolidated by ABP under AASB 10. The only material differences expected to arise (as a result of the ASF transaction having not been completed at 31 December 2011) would be the following:

- the Merger Distribution of \$9.8m payable to ASF securityholders will not be reflected in the audited accounts but is included in the pro forma financial position;
- transaction costs of \$1.1m have been included in the pro forma financial position whereas any costs incurred up to 31 December 2011 prior to the Merger being approved will be capitalised and should the Merger not proceed will be expensed in FY12; and
- net synergy and cost savings of \$2.1m would not be reflected in the income statement.

10.12 Distribution policy and distributions

The Merged Group seeks to provide a reliable and stable and, if possible, increasing distribution to investors over time. ABP distributions are expected to continue to be sourced from underlying profits. Over recent years, ABP has distributed 80% to 95% of underlying profits. There is no current intention for ABP to reduce this distribution payout range although no guarantee can be given in this regard.

The pro forma Merged Group underlying profit of \$77.7m (for the year ended 30 June 2011) would require a distribution payout of 90% to achieve an actual DPS of 16.5 cents per New Stapled Security on the enlarged security base of 424m securities (within the historical 80% to 95% payout range). The actual DPS of 16.5 cents per ABP security for the year ended 30 June 2011 required a distribution payout of 85% of underlying profit.

The Merged Group will seek to distribute, at a minimum, the net taxable income of AT, AIT and ASPT and accordingly, under current tax arrangements, the trusts should not then be liable for income tax. In addition, distributions may include other amounts that the directors determine should be taken into account, for example certain gains and losses and other items as considered appropriate.

Investors in the Merged Group may receive distributions or dividends from any or each component of the Merged Group, i.e. from any or all of AT, ASPT, AIT, AGHL, AGPL and ASOL. The current intention is that combined distributions will be paid twice a year within two months of the end of each six month period.

Distributions payable by ABP for the period ending 31 December 2011 to investors who hold ABP securities on the record date will be paid on 13 March 2012. Distributions payable by ASF for the quarter ended 31 December 2011 to investors who hold ASF securities on the record date will be paid on 7 February 2012.

If the Merger is approved, ASF securityholders will receive New Stapled Securities in the Merged Group and be entitled to a distribution for the half year ending 30 June 2012, payable in August 2012. ASF securityholders will not be entitled to any distribution from ASF in the period between 1 January 2012 to the Implementation Date, other than the Merger Distribution. The actual distribution payable on ASF securities in the year ending 30 June 2012 will be a combination of distributions on existing ASF securities up to 31 December 2011 and distributions on New Stapled Securities after the Merger for the six months ending 30 June 2012. It should be noted ABP pays distributions every six months compared to ASF which has historically paid distributions quarterly. Distributions for the half-year to 31 December 2011 are dealt with in Section 1A.

ABP securityholders will continue to receive distributions on a half yearly basis.

ASF securityholders will also benefit from any income earned on the Merger Distribution.

11 MERGER MECHANICS

11.1 Overview

The Merger will create a common investor base in ABP and ASF by stapling ABP securities to ASF securities to form New Stapled Securities. Each person or entity who is an ABP securityholder or an ASF securityholder on the Stapling Record Date, other than a Foreign Securityholder, is entitled to participate in the Merger. ASF securityholders may also elect to participate in the Sale Facility (described further in Section 11.7). AFML is entitled to vote on the Merger Resolutions in respect of the ASF securities it holds on the Stapling Record Date. On the Stapling Record Date ABP and its related entities are expected to hold 17.4m ASF securities.

11.2 Merger Ratio

The Merger Ratio, determined as set out in Section 5.3, is:

EXISTING SECURITIES	MERGER RATIO	NUMBER OF NEW STAPLED SECURITIES PER 1,000 EXISTING SECURITIES
ASF securities	0.538	538
ABP securities	1.00	1,000

11.3 Implementation of the Merger

11.3.1 Overview of Merger process

The Merger will be achieved by implementing the following steps:

1. **Merger Distribution:** ASF securityholders (other than ABP) will receive the Merger Distribution of \$0.14 per ASF security, comprising a fully franked dividend of 8.7 cents and a capital distribution of 5.3 cents. The Merger Distribution will not be paid if the Merger does not proceed.
2. **Split of ASF securities:** Each existing ASF security will be split into 22.2 Split ASF securities to facilitate the distributions described below.
3. **ABP capital return:** ABP securityholders will receive a capital return in the form of cash and Split ASF securities and the cash portion will be applied to subscribe for newly issued Split ASF securities.
4. **Consolidation of Split ASF securities:** ASF will consolidate the Split ASF securities on a 41.28 for 1 basis into Restructured ASF securities so that the total number of Restructured ASF securities on issue will equal the number of ABP securities on issue after the Merger. Each holding will be rounded to the nearest whole number of Restructured ASOL shares and Restructured ASPT units.
5. **ASF capital return:** ASF securityholders on the Stapling Record Date (other than ABP) will receive a capital return in the form of cash which will be applied to subscribe for newly issued ABP securities.
6. **Stapling:** The ABP securities and the Restructured ASF securities will be Stapled together to form the New Stapled Securities. The process to achieve the Stapling is set out in Section 11.4.
7. **Quotation on ASX:** If the Merger proceeds, the last day for trading in ABP securities on a pre-stapling basis will be 27 February 2012. The last date for registration of transfers of ABP securities and ASF securities prior to the Merger will be 5 March 2012. The New Stapled Securities will be jointly quoted on the ASX under the code ABP from 14 March 2012.
8. **Implementation:** On the Implementation Date:
 - ABP securityholders will receive one New Stapled Security for each ABP security they hold; and
 - ASF securityholders will receive one New Stapled Security for each Restructured ASF security they hold.

The structure of ASF and ABP before and after the Merger is set out in Section 5.2.

For example:

- if You held 1,000 ABP securities on the Stapling Record Date, after the Implementation Date You will hold 1,000 New Stapled Securities, comprising 1,000 AT units, 1,000 AGHL shares, 1,000 AIT units, 1,000 AGPL shares, 1,000 Restructured ASPT units and 1,000 Restructured ASOL shares; and
- if You held 1,000 ASF securities on the Stapling Record Date, after the Implementation Date You will hold 538 New Stapled Securities comprising 538 AT units, 538 AGHL shares, 538 AIT units, 538 AGPL shares, 538 Restructured ASPT units and 538 Restructured ASOL shares.

11.3.2 Detailed Merger process for ABP securities

On the Implementation Date, the Split ASF securities held by ABP (or its associates) will be proportionately distributed in specie to ABP securityholders. This distribution in specie will be at the market value of each Split ASF security for tax purposes.

On the Implementation Date, AFML will also make a distribution of \$0.0585 per AT unit to the AT unitholders and a distribution of \$0.0390 per AIT unit to the AIT unitholders on the Stapling Record Date and will, on behalf of each ABP unitholder:

- (a) apply to ASOL and ASFML for the issue of 40.285 split ASOL shares and 40.285 split ASPT units for each ABP security held by the ABP securityholder; and
- (b) apply the total distribution of \$0.0975 per ABP security payable on the Implementation Date as follows:
 - \$0.00218 to subscribe for each split ASPT unit (equivalent to \$0.09 for each Restructured ASPT unit) for which that ABP securityholder applies to ASFML under paragraph (a); and
 - \$0.00024 to subscribe for each split ASOL share (equivalent to \$0.01 for each Restructured ASOL share) for which that ABP securityholder applies to ASOL under paragraph (a).

On the Implementation Date, AFML, AGHL and AGPL must, upon receipt of an application by ASFML (on behalf of the ASF securityholders) together with payment of the total issue price:

- (a) issue to ASF securityholders for each Restructured ASF security held:
 - one AT unit at an issue price of \$0.32;
 - one AGHL share at an issue price of \$0.07;
 - one AIT unit at an issue price of \$0.10; and
 - one AGPL share at an issue price of \$0.01; and
- (b) enter in the AGHL, AGPL, AIT and AT registers the name and address of each ASF securityholder as the holder of the AT units, AIT units, AGHL shares and AGPL shares issued to it.

11.3.3 Detailed Merger process for ASF securities

On the Implementation Date:

- existing ASF securities will be split to facilitate the in specie distribution of Split ASF securities to ABP securityholders, with each ASF security being split into 22.202 Split ASF securities;
- Split ASF securities will be issued to ABP securityholders, on receipt of the issue price from ABP (refer to Section 11.3.2 in relation to the capital return made by ABP);
- ASFML and ASOL will consolidate each 41.285 split ASPT units into 1 Restructured ASPT unit and each 41.285 split ASOL shares into 1 Restructured ASOL share;
- immediately following the consolidation of the Split ASF securities into Restructured ASF securities, ASFML will make a capital return of \$0.50 per Restructured ASPT unit to the ASPT unitholders on the ASPT register on the Stapling Record Date other than units held by ABP;
- ASFML will, as agent for and on behalf of each ASPT unitholder other than in respect of securities held by ABP on the Stapling Record Date:

-
- (a) apply to AGHL, AGPL and AFML for the issue of one AGHL share, one AGPL share, one AIT unit and one AT unit for each Restructured ASPT unit held by the ASPT unitholder; and
- (b) apply the capital return of \$0.50 per Restructured ASPT unit as follows:
- \$0.32 to subscribe for each AT unit;
 - \$0.07 to subscribe for each AGHL share;
 - \$0.10 to subscribe for each AIT unit; and
 - \$0.01 to subscribe for each AGPL share.

On the Implementation Date, AFSML and ASOL must upon receipt of an application by AFML, AGHL and AGPL (on behalf of ABP securityholders) together with payment of the total issue price:

- (a) issue to each ABP securityholder on the Implementation Date:
- 40.285 split ASPT units at an issue price of \$0.00218 (equivalent to one Restructured ASPT unit at an issue price of \$0.09); and
 - 40.285 split ASOL shares at an issue price of \$0.00024 (equivalent to one Restructured ASOL share at an issue price of \$0.01);
- (b) enter in the ASOL and ASPT registers the name and addresses of each ABP securityholder as holders of the ASPT units and ASOL shares issued to them.

11.4 Stapling

Stapling will be achieved by amendments to the constitutions of the Merger Entities and through the Stapling Deed.

The Stapling Deed will take effect after the registers of the Merger Entities are updated to reflect the issue of ABP securities to ASF securityholders and the in specie distribution and issue of ASF securities to ABP securityholders and, by operation of the Stapling Deed together with the ASPT and ASOL constitutions, each Restructured ASF security held by the ASF securityholder will become Stapled to one ABP security to form one Merged Group Stapled Security.

The stapling provisions in the constitutions of the Merger Entities are described in Section 11.10 and in summary require that:

- a transfer of shares or units in any of the Merger Entities can only be completed if it is accompanied by a transfer of an equal number of shares or units in each of the other Merger Entities; and
- any issue, repurchase or redemption of shares or units by one Merger Entity must be matched by an issue, repurchase or redemption of an equal number of units or shares in each of the other Merger Entities.

After the Merger, the Merger Entities will have identical investors with identical proportionate interests in each Merger Entity and the same directors and management team and the New Stapled Securities will trade jointly on ASX and will not be able to be traded or dealt with separately. Therefore, the amended constitutions and the Stapling Deed also require the Merger Entities to co-operate with each other in conducting their affairs. Specifically, Merged Group Stapled Securityholders will receive combined annual and other reports and one distribution and/or dividend payment each six month period.

However, for legal and Australian tax purposes AT units, AGHL shares, AIT units, AGPL shares, Restructured ASPT units and Restructured ASOL shares will remain separate assets. Greenwoods & Freehills Pty Limited tax report in Attachment 2 sets out details of the taxation consequences of holding and selling New Stapled Securities.

11.5 Terms of New Stapled Securities

The shares and units issued will be ordinary shares and units listed on the ASX, with distributions payable as determined by the relevant boards in accordance with the constitution of each Merger Entity. Voting rights are in accordance with the constitutions of the Merger Entities and the Corporations Act (comprising one vote per share and voting according to proportionate values for units on a poll, consistent with the requirements of the Corporations Act). The relevant constitutions also set out requirements as to issue price and allocation of the issue price among the Merger Entities, with issues, transfers and redemptions / buy-backs to be managed across the stapled entities in accordance with the stapling provisions outlined above. Shares and units will be listed on the ASX and subject to the requirements of the Listing Rules.

11.6 Acquisition by Kirsh Group of Relevant Interest

11.6.1 Information on the Kirsh Group

The Kirsh Group is a privately held investment group founded by Mr Nathan Kirsh with substantial international business interests. The Kirsh Group's global interests include substantial property holdings in Australia, South Africa, the UK and North America, and diverse business interests encompassing Jetro Cash & Carry (a significant US wholesale groceries and food service supplier) and leisure, security, technology and manufacturing businesses in various geographies.

In Australia, the Kirsh Group has several property investments outside of its investment in ABP, including:

- Challis House at 4 Martin Place, Sydney;
- Jandakot Airport and Wesfarmers House in Western Australia;
- a joint venture with the West Australia Cricket Association to redevelop the WACA Sports Stadium;
- a joint venture with ABP in relation to the retail centre at Birkenhead Point, Drummoyne NSW; and
- a joint venture with ABP in relation to 14 Martin Place, Sydney.

The Kirsh Group assisted in a recapitalisation of ABP in 2009 following the GFC, initially through a private placement and subsequently through the sub-underwriting of a rights issue. Since then, the Kirsh Group has increased its stake on a regular basis through the exercise of its rights under the 3% creep provisions of the Corporations Act and through participation in the DRP.

The majority of the ABP Board and the ASF Board is comprised of independent non-executive directors. Myra Salkinder who is associated with the Kirsh Group was appointed to the ABP Board and the ASF Board in April 2011. The Kirsh Group has no other representation on the ABP Board or the ASF Board nor any of their governance or management committees.

11.6.2 Intentions of the Kirsh Group

The Kirsh Group has advised ABP that its present intention is to be a long-term strategic investor in ABP and that it may wish to further exercise its rights under the creep provisions and DRP participation.

The Kirsh Group currently has no ability or intention to change the composition of the ABP Board or the ASF Board or the management or nature of the business of ABP or ASF, but reserves the right to review its intentions in the future.

If the Kirsh Group acquires control of the ABP Board or 50% or more of the Merged Group, it will be a review or default event under the Merged Group's banking facilities allowing the relevant banks to reconsider the provision of finance to the Merged Group. However, the Kirsh Group has indicated it will consult with the banks before triggering such an event.

The Kirsh Group has stated that it:

- currently intends that ABP and ASF will be combined into the Merged Group as described in this Explanatory Memorandum but will otherwise continue to operate in their present forms;
- does not currently intend that any major changes be made to the operation or management of ASF;
- does not currently intend to inject further capital into ASF (other than to the extent they may elect to participate in the DRP); and
- does not intend to significantly change the financial or dividend policies of the Merged Group. As noted previously, distributions are currently payable quarterly out of ASF but following the Merger distributions out of the Merged Group will be made 6 monthly to align with the current ABP distribution regime.

The Kirsh Group has stated that it has no specific intention to acquire additional New Stapled Securities in the six months following the Merger, but would like to retain the flexibility to do so, as it currently has with ABP. Any decision to purchase New Stapled Securities will be assessed at the relevant time with reference to the then-current trading price. The Kirsh Group currently intends to participate in the DRP following the Merger.

11.6.3 Acquisition of relevant interest by the Kirsh Group

The Kirsh Group currently holds a 39.207% relevant interest in ABP. If the Merger does not proceed, the Kirsh Group would be entitled in the next 6 months to increase its holding to 42.207%.

Because the Kirsh Group holds more than 20% in ABP, the Corporations Act deems it holds a relevant interest in any securities held by ABP. As ABP currently holds 19.955% of ASF, the Kirsh Group also has a relevant interest of 19.955% in ASF.

If the Merger proceeds, the Kirsh Group will (on implementation) hold a relevant interest in 35.735% of the New Stapled Securities. In short, the Merger will dilute the Kirsh Group's interest in ABP from 39.207% to 35.735% while increasing its relevant interest in ASF from 19.955% to 35.735%.

The Merger ultimately involves the Kirsh Group obtaining a further relevant interest of 15.78 % in ASF. This increase requires approval by ASF securityholders under the Corporations Act.

In addition, the Kirsh Group has indicated it would not view the Merger favourably if the Merger would disadvantage it by precluding it from acquiring the same percentage interest in the Merged Group as it is currently entitled to purchase in ABP. Accordingly, ASF securityholder approval is sought to allow the Kirsh Group to purchase New Stapled Securities in the 6 months following implementation of the Merger to allow the Kirsh Group to increase its voting power to up to 42.207% of the Merged Group (as it currently would be entitled to do in respect of ABP if the Merger were not effected) (i.e. an increase of 22.252%).

If this approval is not obtained, the Merger cannot proceed.

Further detail is provided below.

11.6.4 Relevant interests generally

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in voting securities of a listed entity if the acquisition would increase a person's voting power in the entity:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

Section 606 also applies to acquisitions of shares in companies with more than 50 members.

"Relevant interests" and "voting power" are technical terms which are defined in the Corporations Act. "Relevant interests" include any power (which may be remote and extremely limited) to exercise control over disposal or voting of units.

"Voting power" is defined in terms of units in which a person and "associates" have "relevant interests". "Voting power" does not necessarily connote actual power to control votes.

Section 611, item 7 of the Corporations Act allows a person to acquire a relevant interest in voting securities in an entity which would otherwise be prohibited by Section 606 of the Corporations Act. This requires approval by a resolution of members where no votes are cast in favour of the resolution by the person acquiring the relevant interest (and its associates).

Resolutions to allow the Kirsh Group to acquire a relevant interest up to 42.207% in ASF and to allow the Kirsh Group to buy back up to the levels it would have been entitled to buy in ABP if the Merger had not occurred (Resolutions 7 and 8) are required to implement the Merger. The Kirsh Group is not a securityholder in ASF and will not vote on either resolution.

11.6.5 Resolutions approving interests of Kirsh Group

AFML, as responsible entity of AT, currently holds a 19.955% relevant interest in ASF. Because of the wide scope of the definition of "relevant interest", the Kirsh Group, as the holder of more than 20% in ABP, is deemed to also hold a relevant interest in 19.955% of the securities in ASF. Further details of these relevant interests are represented in the table below, which is current as at the date of this Explanatory Memorandum.

KIRSH ENTITY	CAPACITY	ASF STAPLED SECURITIES PRE- MERGER	ASF STAPLED SECURITIES ON MERGER	RELEVANT INTEREST (%) PRE-MERGER	RELEVANT INTEREST (%) ON MERGER
Calculator Australia Pty Limited as trustee of the Calculator Australia Trust	Trustee	17,243,507	150,098,161	19.752%	35.373%
KiFin Limited (held by Citicorp Nominees Limited)	Nominee	176,344	1,535,004	0.202%	0.362%
Total voting power		17,419,851	151,633,165	19.955%	35.735%

If the Merger is implemented, ASF securities owned by ABP Entities will be distributed pro-rata to ABP securityholders, including the Kirsh Group. At the same time, further ASF securities will be issued pro-rata to ABP securityholders, including the Kirsh Group. This will result in the Kirsh Group increasing its relevant interest in ASF from 19.955% to 35.735%. This increase would be prohibited under the Corporations Act without ASF securityholder approval under section 611, item 7.

As set out above, the Kirsh Group currently holds total relevant interests (and voting power) of approximately 39.207% in ABP.

If the Merger is implemented, the Kirsh Group's overall voting power in the Merged Group will be diluted to approximately 35.735% as a result of ABP securities being issued to ASF securityholders. This dilution is represented in the table below, which is current as at the date of this Explanatory Memorandum.

KIRSH ENTITY	CAPACITY	ABP SECURITIES PRE- MERGER	ABP SECURITIES ON MERGER	RELEVANT INTEREST (%) PRE-MERGER	RELEVANT INTEREST (%) ON MERGER
Calculator Australia Pty Limited as trustee of the Calculator Australia Trust	Trustee	150,098,161	150,098,161	38.810%	35.373%
KiFin Limited (held by Citicorp Nominees Limited)	Nominee	1,535,004	1,535,004	0.397%	0.362%
Total voting power		151,633,165	151,633,165	39.207%	35.735%

As described above, immediately following implementation of the Merger, the Kirsh Group will have voting power in the Merged Group of 35.735% (compared to voting power in ABP of 39.207% immediately before the Merger). In the 6 months after completion of the Merger, the Kirsh Group could (under the Corporations Act "creep" provisions) acquire ABP securities so as to hold an aggregate relevant interest in ABP of 42.207%.

However, the mechanics of the Merger would restrict the Kirsh Group's ability to acquire additional New Stapled Securities. Because ABP securities and ASF securities will be Stapled following the Merger, the Kirsh Group cannot acquire ABP securities unless it is also permitted to acquire the same number of securities in ASF.

In this case, without approval from ASF securityholders, the "creep" provisions will not allow the Kirsh Group to acquire any further ASF securities for a period of 6 months following completion of the Merger. After those 6 months, the Kirsh Group could only creep from the percentage they held in ASF immediately following the Merger (i.e. from 35.735%). As a result, the Kirsh Group would be prevented from acquiring any New Stapled Securities for a period of 6 months after the Merger (other than through the DRP or other pro rata offers to securityholders), and thereafter could only creep by 3% every 6 months.

In effect, the Kirsh Group would be prevented from re-establishing its current holding entitlements in the Merged Group even though it would otherwise be permitted to do so under the normal application of the creep provisions.

The Kirsh Group has indicated that it would view the Merger favourably provided it is able to preserve the same rights to maintain and increase its voting power in the Merged Group as it currently has in respect of ABP.

There is no current intention for the Merged Group to issue additional New Stapled Securities following completion of the Merger (other than through the ongoing operation of the DRP). Consequently, any acquisition by the Kirsh Group would need to be through on or off market purchase and/or participation in the DRP.

Section 611, item 7 approval is therefore sought from ASF securityholders to address the above issue, to allow the Kirsh Group to purchase New Stapled Securities in the 6 months following the Merger up to the levels that would have been allowed in ABP if the Merger had not occurred (ie, up to 42.207%).

If the Kirsh Group elects to purchase the maximum permitted number of New Stapled Securities in this period, its relevant interest in the Merged Group would increase as set out in the table below:

KIRSH ENTITY	CAPACITY	NEW STAPLED SECURITIES (ON MERGER)	NEW STAPLED SECURITIES IF MAXIMUM # IS PURCHASED*	RELEVANT INTEREST (%) ON-MERGER	RELEVANT INTEREST (%) ON MERGER IF MAXIMUM # IS PURCHASED
Calculator Australia Pty Limited as trustee of the Calculator Australia Trust	Trustee	150,098,161	177,284,440	35.373%	41.780%
KiFin Limited (held by Citicorp Nominees Limited)	Nominee	1,535,004	1,813,029	0.362%	0.427%
Total voting power		151,633,165	179,097,469	35.735%	42.207%

*This number is based on the total number of New Stapled Securities on issue following the Merger and assumes that no further New Stapled Securities are issued.

If Resolutions 7 and 8, approving the Kirsh Group's acquisition of a relevant interest up to 42.207% in the Merged Group in the 6 months after the Merger pursuant to Section 611, item 7 are not passed, the Merger will not proceed.

11.6.6 Prescribed information

Section 611 item 7 of the Corporations Act and ASIC's Regulatory Guide 74 require that the Explanatory Memorandum set out certain prescribed information:

The identity, association and qualification of intended director(s) of ASOL if the resolutions are passed	If Resolutions 7 and 8 are passed, the Kirsh Group has stated that it does not intend to make any changes to the board of ASOL.
Intentions of the Kirsh Group	<p>The Kirsh Group has stated that it:</p> <ul style="list-style-type: none"> currently intends that ABP and ASF will be combined into the Merged Group as described in this Explanatory Memorandum but will otherwise continue to operate in their present forms; does not currently intend that any major changes be made to the operation or management of ASF; does not currently intend to inject further capital into ASF (other than to the extent they may elect to participate in the DRP); and does not intend to significantly change the financial or dividend policies of ASF. Note, as indicated previously, distributions are currently payable quarterly out of ASF. Following the Merger, distributions from the Merged Group will be made 6 monthly to align with the current ABP distribution regime.
Terms of acquisition	The Kirsh Group has stated that if Resolutions 7 and 8 are passed and it elects to acquire additional New Stapled Securities, it intends to do so pursuant to on and/or off market purchases of New Stapled Securities and/or participation in the DRP. There are no agreements between ASF and the Kirsh Group which are conditional on or directly or indirectly dependent on these resolutions.
When the acquisition is to be completed	The Kirsh Group has stated that it has no specific intention to acquire additional New Stapled Securities in the 6 months following the Merger, but would like to retain the flexibility to do so, as it currently has with ABP. Any decision to purchase New Stapled Securities will be assessed at the relevant time with reference to the then-current trading price. The Kirsh Group currently intends to participate in the DRP.
Interests of directors in the resolutions	No director of ASOL or ASFML has an interest in Resolutions 7 or 8.
The identity of directors that approved or voted against the proposal to put Resolutions 7 and 8 to the ASF securityholders	<p>Each of the ASOL and ASFML Directors other than Myra Salkinder voted unanimously to put Resolutions 7 and 8 to ASF securityholders.</p> <p>Myra Salkinder is not independent of the Kirsh Group and therefore did not participate in the consideration by the ASOL and ASFML Directors as to whether to put Resolutions 7 and 8 to ASF securityholders.</p>

Recommendation	<p>Each of the ASOL and ASFML Directors other than Myra Salkinder recommends that ASF securityholders vote in favour of Resolutions 7 and 8. A more detailed description of the reasons for this recommendation is set out in Section 11.6.5.</p> <p>Myra Salkinder is not independent of the Kirsh Group and therefore did not participate in the consideration by the ASOL and ASFML Directors as to whether to put Resolutions 7 and 8 to ASF securityholders and does not make a recommendation on those Resolutions.</p>
Independent Expert's Report	The Independent Expert's Report has concluded that the increase in the Kirsh Group's relevant interest in the Merged Group if approved by Resolutions 7 and 8 is not fair, but reasonable to ASF securityholders.

11.7 Sale Facility

11.7.1 Overview

ABP and ASF have established the Sale Facility to address legal restrictions for participation in the Merger by securityholders in jurisdictions outside of Australia and New Zealand. The Sale Facility will also allow ASF securityholders who wish to exit an opportunity to do so without brokerage or other selling expenses immediately after the Merger. There is no maximum or minimum limit on the number of securities that may be sold under the Sale Facility or the number of ASF securityholders who may participate.

If the Merger proceeds then, from the Stapling Record Date, Foreign Securityholders will automatically participate in the Sale Facility in respect of all New Stapled Securities to which they would otherwise be entitled under the Merger. Foreign Securityholders who do not wish to participate in the Sale Facility may sell their existing interests in ABP securities and/or ASF securities, but must do so on or before 27 February 2012.

ASF securityholders (other than Foreign Securityholders) may also elect to participate in the Sale Facility in respect of all New Stapled Securities which would otherwise be issued to them under the Merger. ASF securityholders who lodge an election to participate in the Sale Facility may not transfer their ASF securities after they have lodged the election form.

ABP securityholders (other than Foreign Securityholders) are not eligible to participate in the Sale Facility.

11.7.2 Key terms of Sale Facility

A summary of the key terms of the Sale Facility is set out in the following table:

Cash per New Stapled Security

Sale proceeds	You will receive the proceeds of the sale of the New Stapled Securities that You would otherwise receive under the Merger.
Transaction costs deducted from sale proceeds	Nil.
Date for despatch of Sale Facility payments	Not later than 15 Business Days after the Implementation Date.

a. Cash per New Stapled Security

ASF securityholders other than Foreign Securityholders	If You wish to elect to participate in the Sale Facility, complete and validly submit the Election Form by 10.00 am on 22 February 2012, in accordance with the instructions on the form and below. The Election Form was distributed with Your copy of the Explanatory Memorandum. For regulatory reasons, no Election Forms will be accepted before 31 January 2012 5 weeks prior to the Implementation Date.	If You wish to elect to participate in the Sale Facility, complete and validly submit the Election Form in accordance with the instructions on the form and below. The Election Form was distributed with Your copy of the Explanatory Memorandum.
Foreign Securityholders	Foreign securityholders (both ABP securityholders and ASF securityholders) will automatically participate in the Sale Facility in respect of New Stapled Securities they would otherwise receive under the Merger.	Foreign securityholders (both ABP securityholders and ASF securityholders) will automatically participate in the Sale Facility in respect of New Stapled Securities they would otherwise receive under the Merger.

b. Important considerations

The ABP Board or ASF Board do not make any recommendation or give any advice as to whether You should participate in the Sale Facility and, if You do, the nature of Your participation. Your decision whether or not to participate in the Sale Facility and the nature of any participation should only be made after consultation with Your investment, financial, taxation or other professional adviser, based on Your own investment objectives, financial situation, taxation position and particular needs. In particular, tax considerations may be important. Some general comments on the Australian tax consequences of the Sale Facility are set out in Attachment 2 (Taxation Report). However, You should obtain tax advice from Your own independent professional tax adviser before deciding whether to participate in the Sale Facility.

c. No guarantee of proceeds

The Sale Facility is not underwritten and participation in the Sale Facility does not guarantee that a fixed cash amount will be received. The cash amount received under the Sale Facility will be determined by reference to the proceeds of sale of New Stapled Securities under the Sale Facility, and this amount may be more or less than the equivalent market value of the ABP securities at any time prior to the close of trading of ABP securities on ASX on 27 February 2012 or the equivalent market price of New Stapled Securities after the Merger is implemented. The market prices for ABP securities prior to the Merger and New Stapled Securities after the Merger may change from time to time. On 16 December 2011, the closing price of ABP securities was \$2.00. You may obtain information about the price of ABP securities from sources where the prices of ASX listed securities are from time to time published (such as the ASX website at www.asx.com.au).

d. Election Form

ASF securityholders (other than Foreign Securityholders) may participate in the Sale Facility only by completing and validly submitting the Election Form between 31 January 2012 and 10.00 am on 22 February 2012. A copy of the Election Form accompanies this Explanatory Memorandum. The Election Form must be completed in accordance with the instructions on the Election Form in order to be valid. Any dispute concerning whether an election to participate in the Sale Facility is valid will be determined by ASFML whose determination is final and determinative of the dispute.

e. Maximum participation

The maximum number of ASF securities that ASF securityholders (other than Foreign Securityholders) may elect for participation in the Sale Facility will depend on the number of ASF securities held on the Stapling Record Date. If You elect to participate in the Sale Facility, all ASF securities that You own will be sold via the Sale Facility. All ASF securities and/or ABP securities held by a Foreign Securityholder on the Stapling Record Date will participate in the Sale Facility. You may obtain information about the number of ASF securities and ABP securities that You hold by contacting the Merger Information Line on 1300 139 440 (within Australia) or +61 2 9290 9600 (outside Australia).

f. Other options

If ASF securityholders (other than Foreign Securityholders) do not wish to hold New Stapled Securities and do not wish to participate in the Sale Facility they may sell any New Stapled Securities on the ASX which are issued to them on the Implementation Date without electing to participate in the Sale Facility. This may be at a price that is higher or lower than the price received if the New Stapled Securities were sold through the Sale Facility.

g. What You receive under the Sale Facility

ASF securityholders who elect to participate in the Sale Facility will receive the proceeds of the New Stapled Securities that are sold by the Sale Bank. Due to a number of factors in the market, including uncertainty surrounding market conditions leading up to and after the Implementation Date and uncertainty in relation to the demand for New Stapled Securities during the sale period, there is no assurance given as to the likely cash amount per New Stapled Security that will be achieved by Foreign Securityholders and Selling ASF securityholders (Sale Facility Participants) following the sale of the New Stapled Securities under the Sale Facility. In particular, it should be noted that the Sale Facility is not underwritten and does not contemplate that a certain fixed cash amount will be paid to Sale Facility Participants. The cash amount that will be paid to Sale Facility Participants for each New Stapled Security may be more or less than the market price of ABP or New Stapled Securities as traded on the ASX before, at the time of and after the sale by the Sale Bank and may be more or less than the actual price received by the Sale Bank. All Sale Facility Participants will receive the same cash amount for each New Stapled Security, being the total proceeds received by the Sale Bank from the sale of New Stapled Securities under the Sale Facility divided by the total number of New Stapled Securities sold under the Sale Facility. The cash amount per New Stapled Security will be multiplied by the number of New Stapled Securities to which a Sale Facility Participant is entitled and rounded to the nearest cent to determine the proceeds payable to that Sale Facility Participant.

h. More information

If any additional information is made available about the Sale Facility, that information will be made available on www.abacusproperty.com.au. You may request a copy of that information by contacting the Merger Information Line on 1300 139 440 (within Australia) or +61 2 9290 9600 (outside Australia) and it will be provided to You free of charge. The Sale Facility is open until 5.00pm on 21 March 2012, being the last date on which the Sale Bank must complete the sale of New Stapled Securities under the Sale Facility.

11.7.3 How the Sale Facility works for ASF securityholders (other than Foreign Securityholders)

If You hold ASF securities (other than as a Foreign Securityholder), You may elect to participate in the Sale Facility, which operates as follows:

- a. The aggregate number of ASF Restructured Securities to which You are entitled under the Merger on the Stapling Record Date will be transferred to the Sale Bank.
- b. For the purpose of implementing the Merger, the Sale Bank will be the holder of those ASF Restructured Securities.
- c. The ASF Restructured Securities held by the Sale Bank will be stapled to ABP securities to become New Stapled Securities on the Implementation Date.
- d. The Sale Bank will sell the New Stapled Securities within 10 Business Days after the Implementation Date.
- e. All New Stapled Securities to be sold by the Sale Bank under the Sale Facility will be sold:
 - (i) to institutional investors and/or professional investors under a bookbuild process determined in consultation with ABP and ASF; or
 - (ii) if the Sale Bank reasonably determines that sales in the ordinary course of trading on ASX is a preferable way of maximising the price obtainable for the New Stapled Securities, then under that other process.

- f. The Sale Bank will seek to achieve the best price for the New Stapled Securities that is reasonably obtainable at that time bearing in mind a number of factors, including the prevailing market conditions (including the prevailing market price of all the New Stapled Securities being sold).
- g. The prices at which New Stapled Securities are sold through the Sale Facility may be adversely affected by the requirement that the sales be conducted within 10 Business Days after the Implementation Date.
- h. Within 5 Business Days of the completion of the sale of the New Stapled Securities by the Sale Bank, the Sale Bank will pay to the Registry, which will then pay to each ASF securityholder, the total proceeds realised by the Sale Bank from the sale of New Stapled Securities under the Sale Facility, divided by the total number of New Stapled Securities sold under the Sale Facility, multiplied by the number of Restructured ASF securities referable to the ASF securities held by that ASF securityholder and transferred to the Sale Bank on the Stapling Record Date.
- i. The Registry will despatch payment to You to the bank account nominated by You in the Election Form.

11.7.4 How the Sale Facility works for ASF securityholders and ABP securityholders who are Foreign Securityholders

Restrictions in certain foreign countries make it impractical or unlawful to offer or receive securities in those countries. Accordingly, none of the Merger Entities will issue securities to a Foreign Securityholder. If You are a Foreign Securityholder You must participate in the Sale Facility and will receive cash for Your New Stapled Securities.

A Foreign Securityholder is an ABP securityholder or an ASF securityholder on the Stapling Record Date whose address on the relevant securityholder register is outside Australia or New Zealand.

The Sale Facility operates in a similar way as described in Section 11.7.3 with all references to Restructured ASF securities also including ABP securities and Restructured ASF securities owned by Foreign Securityholders.

As an alternative, Foreign Securityholders who hold ABP securities may choose to sell their securities on the ASX prior to 27 February 2012. This day may be changed if there is a delay in obtaining the necessary approvals. A public announcement will be made of any new date. After that last day, trading on the ASX will only be in New Stapled Securities.

11.8 Implementation Deed

AGHL, AGPL, AFML as responsible entity of AT and AIT, ASOL and ASFML as responsible entity of ASPT entered into the Implementation Deed in January 2012. The Implementation Deed regulates the basis on which the Merger will be implemented.

A summary of some of the main points of the Implementation Deed are as follows:

- (a) **(Agreement to implement the Merger)** each of the parties agrees to use all reasonable endeavours to ensure that each condition precedent to the Merger is satisfied and to take all necessary actions to implement the steps required to implement the Stapling;
- (b) **(Obligations)** the main obligations of the parties are to carry out the steps in the Implementation Deed to implement the Stapling, including:
 - to apply for regulatory approvals required to implement the Stapling;
 - to convene the required securityholder and board meetings; and
 - to prepare the documents required to implement the Stapling;
 - to return capital to securityholders and subscribe for securities in accordance as set out in Section 11.3; and
 - to apply for official quotation of the New Stapled Securities on ASX.
- (c) **(Termination rights)** the Implementation Deed will terminate if all of the conditions set out in the Implementation Deed are not satisfied before 30 June 2012, including:
 - (i) **(Securityholder resolutions)** the ASF securityholders or ABP securityholders do not approve by the requisite majorities all the resolutions to be considered at the ASF securityholders' meeting and the ABP securityholders' meeting;
 - (ii) **(material breach)** a party commits a material breach of the Implementation Deed which is unremedied for 7 days; or
 - (iii) **(regulatory intervention)** a court or government agency takes any action which materially restrains or prohibits the Stapling proceeding;
 - (iv) **(material adverse change)** a material adverse change in the business or financial condition of ASF or ABP or its ability to implement the Merger; or
 - (v) **(superior proposal)** ABP receives an alternative proposal which the ABP Directors determine is superior to the Merger, or ASF receives an alternative proposal which the ASF Directors determine is superior to the Merger.
- (d) **(Limitation of liability)** the liability of AFML and ASFML arising under or in connection with this document is limited to and can be enforced against AFML or ASFML only to the extent AFML or ASFML is actually indemnified for the liability, except where the liability arises as a result of AFML's or ASFML's fraud, negligence or breach of trust.

The Implementation Deed also deals with the recapitalisation proposal and requires that this be put to ABP securityholders.

11.9 Stapling Deed

AGHL, AGPL and AFML as responsible entity of AT and AIT and ASOL and ASFML as responsible entity of ASPT will enter into the Stapling Deed on or about the Stapling Record Date which sets out the terms of the relationship between the parties in respect of the New Stapled Securities.

The parties must co-operate with each other in connection with all matters concerning the New Stapled Securities and provide reasonable assistance to each other in the performance of their obligations. Specifically, they must co-ordinate their statutory disclosures, adopt consistent accounting and valuation policies, maintain the same auditor, maintain a majority of common directors, have consistent investment and borrowing policies and agree on the timing and terms of new issues, bonus and rights issues, placements, redemption and buy-backs of New Stapled Securities.

While Stapling applies, the parties may, in exercising any power of discretion, have regard to the interests of holders of New Stapled Securities as a whole and not only to the interests of shareholders or unitholders (as the case may be) alone.

The shares and units will be Stapled in a 1:1:1:1:1 ratio to form New Stapled Securities. None of the parties may issue, sell, cancel, vary or transfer any shares or units (or rights to shares or units) unless corresponding shares or units or rights in the other members of the Merged Group are also issued, sold, cancelled or transferred at the same time.

While Stapling applies, each party may if called upon by the other party, procure that it and any of its controlled entities extend financial benefits to each other, including by way of lending money, giving guarantees or engaging in joint borrowing.

The parties are required to agree on what part of the amount payable for the issue, redemption or buy-back of (or option to subscribe for) a New Stapled Security is to represent and the price payable for the issue, redemption or buy-back (or option to subscribe) for each of the units and shares comprising the New Stapled Security. This is generally done on the basis of the relative fair values of the unit and share components of the New Stapled Security agreed between the parties prior to the issue, redemption, buy-back or granting of the New Stapled Security or option.

11.10 Constitutions of the Merger Entities

11.10.1 ABP Entities

The proposed amendments to the constitutions of AT and AIT (**Trusts**) and AGHL and AGPL (**Companies**) are required to facilitate the implementation of the Merger, as the current stapling provisions in the constitutions do not allow a stapling of further securities to the ABP securities.

The current Trust and Company constitutions, marked up to reflect the proposed changes, are available for inspection at the registered offices of Abacus Property Group until the time of the meeting. A copy will be made available upon request free of charge by calling the Merger Information Line on 1300 139 440.

It is proposed that the following stapling amendments are made to the Trust and Company constitutions:

Power to staple securities	<p>The boards of AFML and each Company are authorised to cause the stapling of the ASF securities to the ABP securities to give effect to the Merger as described in this Explanatory Memorandum.</p> <p>The boards of AFML and each Company are also authorised to cause the stapling of any other security to the ABP Stapled Securities without the need for further securityholder approvals.</p>
Stapling provisions paramount	If there is an inconsistency between any provision of a constitution relating to stapling and any other provision, the provision relating to stapling prevails.
Duties to holders	AFML may have regard to the interests of AT and AIT securityholders as holders of attached securities in the other stapled entities. Similarly, the board of each Company may have regard to the interests of holders of securities in each Company as holders of attached securities in the other stapled entities.
Amendments for consistency	The existing provisions which regulate the stapling, unstapling, transfer and terms of the ABP securities are redrafted for consistency with the new stapling provisions set out above.

Appointment as agent	<p>Each ABP securityholder appoints AFML and each Company as its agent and attorney for the purposes of:</p> <ul style="list-style-type: none"> • taking all necessary action to compulsorily transfer all ABP securities held by each Excluded Foreign Holder (as this term is defined in each constitution); • applying for securities in the name of the ABP securityholder, including securities in a stapled entity; • agreeing on behalf of the ABP securityholder to be bound by the constitution of a stapled entity; or • accepting transfers of securities for the ABP securityholder, <p>in order to give effect to:</p> <ul style="list-style-type: none"> • the Merger; • any further proposal to staple securities to the New Stapled Securities; or • an issue of securities in a stapled entity in connection with a capital reallocation or a distribution of income or capital by way of an issue of securities.
Small holdings	<p>The existing powers of:</p> <ul style="list-style-type: none"> • AFML to sell an unmarketable parcel of units; and • each Company to sell an unmarketable parcel of shares in that Company, <p>are amended to make clearer so that each of AFML and a Company has the power to sell an unmarketable parcel of New Stapled Securities.</p>
Sale under lien (Companies only)	<p>The existing power of each Company to sell shares in that Company which are subject to a lien in favour of the Company to satisfy the payment of amounts owing to the Company is amended to make clearer that each Company also has the power to sell any securities stapled to the shares which the Company proposes to sell.</p>

11.10.2 ASF Entities

It is proposed that:

- the existing constitution of ASOL is replaced in its entirety by a new constitution substantially identical to the constitution of AGHL and AGPL; and
- the existing constitution of ASPT is replaced in its entirety (except the clauses which provide for the fee entitlement of ASFML which remain unchanged) by a new constitution substantially identical to the constitution of AT and AIT.

The replacement of the constitutions is directed at facilitating:

- the implementation of the Merger; and
- the operation of each of ASOL and ASPT as members of the Merged Group.

If the Merger is not approved, the constitutions will remain unchanged.

The existing ASOL and ASPT constitutions and the proposed new ASOL and ASPT constitutions are available for inspection at the registered offices of Abacus Property Group until the time of the meeting. A copy will be made available upon request free of charge by calling the Merger Information Line on 1300 139 440.

The key proposed amendments in relation to the Merger that arise from the replacement of the constitution of ASOL are set out below. The other proposed amendments are described in the capital management explanatory notes accompanying the Notice of Meeting.

Various changes will reflect that ASOL and ASPT will, following stapling, form part of a listed stapled group. The ASX Listing Rules impose various obligations and protections on listed entities and the trading of listed securities. Other changes are simply for consistency with the ABP constitutions.

Given that the ASF securities will, following the stapling, be traded as a stapled security, it is important for administrative and other reasons that the constitutions are all in the same form (e.g. processes for calling of meetings, transfers and trading restrictions).

a. ASOL constitution

Stapling amendments

Power to staple securities	<p>The board of ASOL is authorised to cause the stapling of the ASF securities to the ABP securities to give effect to the Merger as described in this Explanatory Memorandum.</p> <p>The board of ASOL is also authorised to cause the stapling of any other security to the ASF Stapled Securities without the need for further securityholder approvals.</p>
Number of shares to be stapled	<p>The number of issued shares in ASOL at any time must be equal to the number of issued attached securities, divided by the relevant "corresponding number". The corresponding number is, in respect of an attached security, the number of those attached securities that are stapled to an issued share at any time.</p> <p>Under the current ASOL constitution, each share in ASOL is stapled to one unit in ASPT.</p>
Compliance with Listing Rules	<p>Provisions have been added to ensure that, while ASOL is listed, the constitution is subject to and consistent with the Listing Rules and ASOL complies with any obligations imposed by the Listing Rules or the ASTC operating rules.</p>
Restricted securities	<p>While stapling applies, if a restriction is placed on trading of the New Stapled Securities, the shares in ASOL which are a component of the New Stapled Securities will be restricted in the same way.</p> <p>The existing constitution does not provide for the restrictions set out above which apply when ASOL is listed.</p>
Transfers of shares	<p>ASOL may participate in an electronic or computerised system to facilitate dealings in ASOL shares. A member may transfer ASOL shares by a market transfer in accordance with an electronic or computerised system. Directors must not prevent, delay or interfere with the registration of a market transfer if it would contravene the Listing Rules or ASTC operating rules. The instrument of transfer must be in a form approved by the ASX.</p> <p>The existing constitution does not provide for the restrictions set out above, which apply when ASOL is listed.</p>
Reclassification of shares	<p>ASOL may by ordinary resolution convert and reclassify all or any of the issued shares in one class into shares in another class.</p> <p>The existing constitution does not specifically provide for a reclassification of shares.</p>
Small holdings	<p>Where ASOL is listed, ASOL may sell an unmarketable parcel of shares or ASF securities. An unmarketable parcel is a number of securities which is less than the number required for the time being to constitute a marketable parcel of securities as defined by the Listing Rules (currently \$500).</p> <p>The existing constitution does not provide for the sale of small holdings.</p>

Appointment as agent	<p>Each ASF securityholder appoints ASOL as its agent and attorney for the purposes of:</p> <ul style="list-style-type: none"> • taking all necessary action to compulsorily transfer all ASF securities held by each Excluded Foreign Holder (as this term is defined in the constitution); • applying for securities in the name of the ASF securityholder, including Securities in a stapled entity; • agreeing on behalf of the ASF securityholder to be bound by the constitution of a stapled entity; or • accepting transfers of securities for the ASF securityholder, <p>in order to give effect to:</p> <ul style="list-style-type: none"> • the Merger; • any further proposal to staple securities to the New Stapled Securities; or • an issue of securities in a stapled entity in connection with a capital reallocation or a distribution of income or capital by way of an issue of securities. <p>The existing constitution does not provide for the appointment of ASOL as agent.</p>
Directors	<p>At the conclusion of every AGM, 1/3 of the eligible directors of ASOL must retire from office. No director may retain office for more than 3 years without submitting himself or herself for re-election. This requirement does not apply to directors holding office at the time of adoption of the new constitution.</p> <p>The existing constitution does not provide for retirement by rotation.</p>

Capital management amendments

Capital reallocation between stapled entities	<p>The capital management amendments set out below will only take effect if equivalent amendments are approved by ABP securityholders.</p> <p>Provisions have been included to allow the re-allocation of capital across differing stapled entities to ensure that each stapled entity is appropriately capitalised. For this purpose, ASOL may issue shares (capital allocation shares):</p> <ul style="list-style-type: none"> • to ASF Stapled Securityholders if the stapled entity (or, where the stapled entity is a trust, the trustee of the stapled entity) makes an application for capital allocation shares as the agent for the ASF Stapled Securityholders and applies a distribution out of the stapled entity towards the amount required for those capital allocation shares; or • to a stapled entity if the trustee is satisfied that immediately following the issue of the capital allocation shares, they will be distributed pro rata to the ASF Stapled Securityholders, <p>so long as:</p> <ul style="list-style-type: none"> • immediately following the issue of the capital allocation shares, ASOL consolidates the capital allocation shares with all other shares on issue such that the total number of shares then on issue is equal to the number of shares on issue prior to the capital reallocation issue; and • the consolidation is approved by ASOL shareholders by ordinary resolution. <p>The existing constitution does not provide for a reallocation of capital of the type outlined above.</p>
Reduction of capital in a stapled entity to capitalise another stapled entity	<p>ASOL may reduce its capital and may, as agent for and in the name of each ASF Stapled Securityholder, apply the amount of the reduction that the ASF Stapled Securityholder is otherwise entitled to the purchase of securities in any other stapled entity pro rata in proportion to the number of securities held by the ASF Stapled Securityholder in that stapled entity. Such a reduction of capital must be approved by ASOL shareholders by ordinary resolution.</p> <p>The existing constitution does not provide for a reduction of capital of the type outlined above.</p>

b. ASPT constitution

Stapling amendments

Power to staple securities	<p>The board of ASFML is authorised to cause the stapling of the ASF securities to the ABP securities to give effect to the Merger as described in this Explanatory Memorandum.</p> <p>The board of ASFML is also authorised to cause the stapling of any other security to the ASF securities without the need for further securityholder approvals.</p>
Number of units to be stapled	<p>The number of issued units in ASPT at any time must be equal to the number of issued attached securities, divided by the relevant "corresponding number". The corresponding number is, in respect of an attached security, the number of those attached securities that are stapled to an issued share at any time.</p> <p>Under the current ASPT constitution, each unit in ASPT is stapled to one share in ASOL.</p>
Compliance with Listing Rules	<p>Provisions have been added to ensure that, while ASPT is listed, the constitution is subject to and consistent with the Listing Rules and ASFML and ASPT comply with any obligations imposed by the Listing Rules or the ASTC operating rules.</p>
Issue Price for income reinvestment	<p>The issue price may no longer be determined by reference to the offer document in respect of the ASP Securities (as being the issue price set out in the offer document discounted by 2%).</p>
Issue Price for placements	<p>New compliance requirements have been added in respect of an issue of units under s601GAA(2A) of the Corporations Act.</p>
Executive Award Plan	<p>Provisions have been added in respect of the issue of options under the Executive Award Plan (as this term is defined under the constitution).</p>
Variation of class rights	<p>Under the existing constitution, a variation of class rights specifically requires the prior consent of 75% of unit or option holders or a special resolution of the holders of units or options of the class.</p> <p>This restriction has been removed from the constitution however the terms of issue of any unit class may include a restriction of the variation of class rights identical to the restriction outlined above.</p>
Restricted securities	<p>While stapling applies, if a restriction is placed on trading of the New Stapled Securities, the units in ASPT which are a component of the New Stapled Securities will be a restricted in the same way.</p> <p>The existing constitution does not provide for the restrictions set out above, which apply when ASPT is listed.</p>
Transfers of units	<p>ASFML may participate in an electronic or computerised system to facilitate dealings in ASPT units. A member may transfer ASPT units by a market transfer in accordance with an electronic or computerised system. ASFML must not prevent, delay or interfere with the registration of a market transfer if it would contravene the Listing Rules or ASTC operating rules. The instrument of transfer must be in a form approved by the ASX.</p> <p>The existing constitution does not provide for the restrictions set out above which apply when ASPT is listed.</p>
Small holdings	<p>Where ASPT is listed, ASFML may sell an unmarketable parcel of shares or ASF securities. An unmarketable parcel is a number of securities which is less than the number required for the time being to constitute a marketable parcel of securities as defined by the Listing Rules (currently \$500).</p> <p>The existing constitution does not provide for the sale of small holdings.</p>

Appointment as agent	<p>Each ASF securityholder appoints ASFML as its agent and attorney for the purposes of:</p> <ul style="list-style-type: none"> • taking all necessary action to compulsorily transfer all ASF securities held by each Excluded Foreign Holder (as this term is defined in the constitution); • applying for securities in the name of the ASF securityholder, including Securities in a stapled entity; • agreeing on behalf of the ASF securityholder to be bound by the constitution of a stapled entity; or • accepting transfers of securities for the ASF securityholder, <p>in order to give effect to:</p> <ul style="list-style-type: none"> • the Merger; • any further proposal to staple securities to the New Stapled Securities; or • an issue of securities in a stapled entity in connection with a capital reallocation or a distribution of income or capital by way of an issue of securities. <p>The existing constitution does not provide for the appointment of ASFML as agent.</p>													
Retirement and removal of responsible entity when ASPT not registered	<p>As ASPT is a registered scheme, the provisions in relation to the retirement and removal of the trustee of ASPT when ASPT is not a registered scheme have been removed.</p>													
Voting	<table> <tr> <th></th><th>EXISTING CONSTITUTION</th><th>PROPOSED NEW CONSTITUTION</th></tr> <tr> <td>Quorum for a meeting of the members of ASOL</td><td>2 members</td><td>2 members holding at least 10% of the votes that may be cast at the meeting</td></tr> <tr> <td>Quorum for a meeting of the members of ASPT</td><td>2 members</td><td> <ul style="list-style-type: none"> • in respect of a resolution to remove ASFML, 2 members holding at least 51% of the votes that may be cast at the meeting. • in respect of any other resolution, 2 members holding at least 10% of the votes that may be cast at the meeting </td></tr> <tr> <td>Winding up of ASPT by ASFML</td><td>ASFML may wind up ASPT with the prior consent of members holding at least 51% by value of the units on issue at the termination date</td><td>ASFML may wind up ASPT with the prior approval of a resolution of unitholders or otherwise pursuant to the Corporations Act or other applicable law.</td></tr> </table>			EXISTING CONSTITUTION	PROPOSED NEW CONSTITUTION	Quorum for a meeting of the members of ASOL	2 members	2 members holding at least 10% of the votes that may be cast at the meeting	Quorum for a meeting of the members of ASPT	2 members	<ul style="list-style-type: none"> • in respect of a resolution to remove ASFML, 2 members holding at least 51% of the votes that may be cast at the meeting. • in respect of any other resolution, 2 members holding at least 10% of the votes that may be cast at the meeting 	Winding up of ASPT by ASFML	ASFML may wind up ASPT with the prior consent of members holding at least 51% by value of the units on issue at the termination date	ASFML may wind up ASPT with the prior approval of a resolution of unitholders or otherwise pursuant to the Corporations Act or other applicable law.
	EXISTING CONSTITUTION	PROPOSED NEW CONSTITUTION												
Quorum for a meeting of the members of ASOL	2 members	2 members holding at least 10% of the votes that may be cast at the meeting												
Quorum for a meeting of the members of ASPT	2 members	<ul style="list-style-type: none"> • in respect of a resolution to remove ASFML, 2 members holding at least 51% of the votes that may be cast at the meeting. • in respect of any other resolution, 2 members holding at least 10% of the votes that may be cast at the meeting 												
Winding up of ASPT by ASFML	ASFML may wind up ASPT with the prior consent of members holding at least 51% by value of the units on issue at the termination date	ASFML may wind up ASPT with the prior approval of a resolution of unitholders or otherwise pursuant to the Corporations Act or other applicable law.												

Capital management amendments

Capital Reallocation between stapled entities	<p>The capital management amendments set out below will only take effect if equivalent amendments are approved by ABP securityholders.</p> <p>Provisions have been included to allow the re-allocation of capital across differing stapled entities to ensure that each stapled entity is appropriately capitalised. For this purpose, ASFML may issue units (capital allocation units):</p> <ul style="list-style-type: none"> to ASF Stapled Securityholders if the stapled entity (or, where the stapled entity is a trust, the trustee of the stapled entity) makes an application for capital allocation units as the agent for the ASF Stapled Securityholders and applies a distribution out of the stapled entity towards the amount required for those capital allocation units; or to a stapled entity if the trustee is satisfied that immediately following the issue of the capital allocation units, they will be distributed pro rata to the ASF Stapled Securityholders, <p>so long as immediately following the issue of the capital allocation units, ASFML consolidates the capital allocation units with all other units on issue such that the total number of units then on issue is equal to the number of units on issue prior to the capital reallocation issue.</p> <p>The existing constitution does not provide for a reallocation of capital of the type outlined above.</p>
Reduction of capital in a stapled entity to capitalise another stapled entity	<p>ASFML may reduce the capital of ASPT and may, as agent for and in the name of each ASF Stapled Securityholder, apply the amount of the reduction that the ASF Stapled Securityholder is otherwise entitled to the purchase of securities in any other stapled entity pro rata in proportion to the number of securities held by the ASF Stapled Securityholder in that stapled entity.</p> <p>The existing constitution does not provide for a reduction of capital of the type outlined above.</p>
Buy back	<p>Consistent with the ASX Listing Rules and relevant ASIC reliefs, the ASPT constitution will be amended to allow flexibility for potential future buy-backs. No buy-back is contemplated at this stage. For this purpose, ASPT constitution is to be amended to allow ASPT to buy back its units while listed. Immediately after registration of a transfer of a unit or stapled security (as the case may be) following a buy-back, the units are cancelled. Where a unit forms part of a stapled security, the trustee may only buy back and cancel units if the securities to which those units are stapled are also the subject of a contemporaneous buy-back and cancellation.</p> <p>The trustee or its nominee may set a range of purchase prices at which buy-backs can be made provided that the maximum purchase price does not exceed 5% more than the average market price for the unit or stapled security (as the case may be) sold on ASX during the last 5 days on which sales in units or stapled securities (as the case may be) were recorded.</p> <p>The existing constitution does not provide for a buy back of the type outlined above.</p>

11.11 ASIC relief

ASIC has granted or has indicated it will grant the following modifications to and exemptions from the operation of the Corporations Act as it applies to ABP and ASF:

- sections 601FC (1) (c) 601FD (1) (c):** modifications to allow the responsible entities and their officers to act in the best interests of Merged Group Stapled Securityholders collectively rather than the separate interests of unitholders in each Stapled Trust;
- section 601FC (1) (d):** an exemption to allow the responsible entities to exclude foreign unitholders from participation in the Merger and to deal with them in the manner set out in Section 11.7 of the Explanatory Memorandum;
- sections 601FC(1)(e), 601FD(1)(d), 601FD(1)(e) and 601FE(1):** modifications to allow the responsible entities and their officers to use information acquired in their respective roles for the benefit of Merged Group Stapled Securityholders collectively rather than the separate interests of unitholders in each Stapled Trust;
- section 601GA (1) (a) (as modified by Class Order 05/26):** modifications to enable the responsible entities to determine the issue price of a unit that is a component of the New Stapled Securities where the overall price of the New Stapled Securities is not affected by a responsible entity's determination and the relevant responsible entity has not determined the overall New Stapled Security price;
- section 601LC:** a modification to allow financial benefits to flow across the Merged Group on terms which are not arms' length without the approval of securityholders;
- sections 708(13) and 1012D(3):** modifications to allow the offer of New Stapled Securities issued under the DRP without a prospectus or product disclosure statement;

- **section 711(6)**: an exemption from the requirement for the Explanatory Memorandum to specify an expiry date;
- **section 722**: an exemption from the requirement for the Stapled Companies to hold application money on trust;
- **section 723(1) and 1016A (2)**: modifications to allow the Merger to be implemented without the use of individual application forms;
- **Class Order**: modification of relief granted under ASIC Class Order [CO 08/10] to remove the requirement that the sales to Foreign Securityholders and Selling Securityholders be conducted in the ordinary course of trading on ASX, such that the exemptions will apply where a bookbuild process is adopted as the method of sale under the Sale Facility;
- **sections 606 and 671B**: relief in relation to the operation of the Sale Facility.

11.12 ASX waivers and confirmations

ASX has granted the following confirmations and waivers to ABP, and has provided in principle advice to ASF that it would be likely to grant the following confirmations and waivers, in relation to the operation of the following Listing Rules as they apply to the Merger Entities. The waivers are all conditional on:

- ABP securityholders and ASF securityholders approving the Merger; and
- ABP securityholders and ASF securityholders approving the amendments to their respective constitutions, which will have the effect of implementing the Merger.

ASX reserves the right to remove any Merger Entity from the official list if the shares and units comprising the New Stapled Securities cease to be stapled or any securities are issued by a Merger Entity which are not stapled to equivalent securities in each other Merger Entity.

11.12.1 Confirmations and approvals

ASF

ASX has provided in principle advice to ASF that on receipt of an application for admission to the official list of ASX by ASOL and ASPT and the stapling of ASF securities to ABP securities, it would be likely to:

- **Listing Rule 1.1, Condition 1**: consider that the structure and operations of ASF are appropriate for the purposes of listing rule 1.1, condition 1;
- **Listing Rule 1.1, Condition 17**: consider that the requirement to provide the information specified by items 10A, 10B, 10C, 22A, 22B and 22C of Appendix 1A for the purposes of listing rule 1.1 condition 17 does not apply to ASF Directors who are also ABP Directors;
- **Listing Rule 6.1**: consider that the terms of the New Stapled Securities are appropriate and equitable for the purposes of listing rule 6.1;
- **Listing Rule 6.12.3**: consider that the provisions of the constitutions of ASOL and ASPT relating to the divestment of the shares and units of Foreign Securityholders (the **Divestment Provisions**) are appropriate and equitable for the purposes of listing rule 6.12.3, on the following conditions:
 - a. The Divestment Provisions only operate to implement the stapling of additional entities.
 - b. ASOL and ASPT obtain shareholder and unitholder approval respectively to amend their constitutions and such other approvals as are deemed appropriate by ASOL or ASPT in connection with the Divestment Provisions.
 - c. The Divestment Provisions do not apply to New Zealand securityholders;
- **Appendix 7A**: agree that the New Stapled Securities are able to trade on a deferred settlement basis in accordance with the timetable in clause 5 of Appendix 7A until the despatch date; and
- **Guidance Note 2**: consider that the terms of the Merger satisfy the requirements of Guidance Note 2.

ABP

ASX has decided that it does each of the following in relation to ABP:

- **Listing Rule 6.1**: considers that the terms of the New Stapled Securities are appropriate and equitable for the purposes of listing rule 6.1;
- **Listing Rule 6.12.3**: considers that the provisions of the constitutions of the ABP Entities and the ASF Entities relating to the divestment of securities of Foreign Securityholders (the **Divestment Provisions**) are appropriate and equitable for the purposes of listing rule 6.12.3, on the following conditions:
 - a. The Divestment Provisions only operate to implement the stapling of additional entities.
 - b. The ABP Entities and the ASF Entities obtain securityholder approval respectively to amend their constitutions and such other approvals as are deemed appropriate by ABP in connection with those provisions.
 - c. The Divestment Provisions do not apply to New Zealand securityholders;

- **Appendix 7A:** agrees that the New Stapled Securities are able to trade on a deferred settlement basis in accordance with the timetable in clause 5 of Appendix 7A until the despatch date; and
- **Listing Rule 7.1:** confirms that the ABP securities issued with the benefit of the waiver of listing rule 7.1 referred to below are treated as being issued with securityholder approval for the purposes of the note to listing rule 7.1; and
- **Guidance Note 2:** considers that the terms of the Merger satisfy the requirements of Guidance Note 2 – Stapled Securities.

11.12.2 Waivers

ASF

ASX has provided in principle advice to ASF that on receipt of an application for admission to the official list of ASX by ASOL and ASPT and the stapling of ASF securities to ABP securities, it would be likely to grant the following waivers to ASF:

- **Listing Rule 1.1 Condition 7:** a waiver from listing rule 1.1 condition 7 to the extent necessary to permit each ASF securityholder to hold a parcel of ASF securities having a value of less than \$2,000, on condition that ASF securities are stapled to ABP securities, so that the parcel of New Stapled Securities has a value of at least \$2,000;
- **Listing Rule 1.1, Condition 8:** a waiver from listing rule 1.1 condition 8 to the extent necessary not to require ASF to comply with listing rule 1.3, on condition that ASF securities are stapled to ABP securities and ASF and ABP together meet the tests in that listing rule;
- **Listing Rule 2.1 Condition 2:** a waiver from listing rule 2.1 condition 2 to the extent necessary to permit the issue price of ASF securities to be less than 20 cents, on condition that ASF securities are stapled to ABP securities and each New Stapled Security has a value of at least 20 cents;
- **Listing Rule 6.24:** a waiver from listing rule 6.24 in respect of clause 1 of Appendix 6A to the extent necessary that the rate and amount of a dividend or distribution need not be advised to ASX when announcing a dividend or distribution record date, on condition that an estimated dividend or distribution rate is advised to ASX as on the announcement date and the actual rate is advised to ASX as soon as it becomes known;
- **Listing Rule 8.10:** a waiver from listing rule 8.10 to the extent necessary to permit ASF and ABP to respectively refuse to register a transfer of a component of the New Stapled Securities if it is not also accompanied by a transfer of all the other components of the New Stapled Securities;
- **Listing Rule 10.1:** a waiver from listing rule 10.1 to the extent necessary to permit the transfer of substantial assets between and within the ASF Entities and the ABP Entities, without approval of holders of New Stapled Securities, on the following conditions:
 - a. All ASF securities are stapled to all ABP securities.
 - b. No ASF Entity or ABP Entity issues any other securities that are not stapled to the corresponding securities of all the other ASF Entities and ABP Entities.

ABP

ASX has decided to grant the following waivers in relation to ABP:

- **Listing Rule 7.1:** a waiver from listing rule 7.1 to the extent necessary to permit ABP to issue ABP securities to ASF securityholders to effect the Merger without obtaining securityholder approval, on condition that ABP obtains securityholder approval to amend its constitutions, and such other approvals as are deemed appropriate by ABP in connection with the Merger;
- **Listing Rule 8.10:** a waiver from listing rule 8.10 to the extent necessary to permit ABP and ASF to respectively refuse to register a transfer of a component of the New Stapled Securities if it is not also accompanied by a transfer of all the other components of the New Stapled Securities;
- **Listing Rule 10.1:** a waiver from listing rule 10.1 to the extent necessary to permit the transfer of substantial assets between and within the ABP Entities and the ASF Entities and, to the extent necessary, to facilitate in specie distributions of ASF securities by way of the capital return ABP will make to implement the Merger, without securityholder approval, on the following conditions:
 - a. all ABP securities are stapled to all ASF securities.
 - b. no ABP Entity or ASF Entity issues any other securities that are not stapled to the corresponding securities of all the other ABP Entities and ASF Entities; and
- **Listing Rule 10.11:** a waiver from listing rule 10.11 to the extent necessary to permit ABP to issue securities to related parties to effect the Merger without obtaining securityholder approval, on condition that ABP obtains securityholder approval to amend its constitutions, and such other approvals as are deemed appropriate by ABP in connection with the Merger.

12 ADDITIONAL INFORMATION

12.1 Dispute resolution

You have a right to complain if You are not satisfied with anything relating to any of the Merger Entities. All complaints are taken seriously and You will be provided with a copy of the Abacus Consumer Guide to Resolving Complaints on request and at no charge.

If You have a complaint, You should write to AFML (see contact details in Section 14), including Your name, address and investor number. AFML will acknowledge the complaint within 5 Business Days and will seek to resolve it as soon as practicable, but no later than six weeks from receipt.

AFML is a member of the Financial Ombudsman Service (FOS) which retail investors may contact for any issues that cannot be resolved with us. FOS is an independent external dispute resolution organisation registered with ASIC. Please note that FOS will not deal with Your complaint unless You have first raised Your concerns with AFML. FOS toll free telephone number is 1300 780 808, or You can contact FOS by mail at GPO Box 3, Melbourne, Victoria 3001.

12.2 Labour standards, social, ethical and environmental considerations

Decisions about investments are based primarily on economic factors. Neither ABP nor ASF takes into account labour standards or social or ethical standards except to the extent that they impact on the financial value of an investment. Environmental issues are considered as part of normal property due diligence.

12.3 Cooling-off regime

No cooling-off period applies to this offer of securities under the terms of the Merger.

12.4 Privacy

The ABP Entities and the ASF Entities may collect personal information in the process of implementing the Merger. Such information may include the name, contact details and securityholdings of ABP securityholders and ASF securityholders and the names of persons appointed by those persons to act as a proxy, corporate representative, or attorney at the meetings to be held to give effect to the Merger. The primary purpose of the collection of personal information is to assist the ABP Entities and the ASF Entities to conduct these meetings and implement the Merger. Personal information of the type described above may be disclosed to the unit and share registries of the Merger Entities respectively, print and mail service providers, authorised securities brokers, the related bodies corporate of the ABP Entities and the ASF Entities, and the Sale Bank and its related bodies corporate. ABP securityholders and ASF securityholders have certain rights to access personal information that has been collected. You should contact the Registry in the first instance if You wish to access Your personal information. Securityholders who appoint a named person to act as their proxy, corporate representative or attorney should ensure that they inform that person of these matters.

12.5 Disclosure of interests

12.5.1 Interests of Directors in securities

The table below sets out the number and type of securities in ABP or ASF held by each director of AFML, AGHL, AGPL, ASFML and ASOL or their associates or in respect of which they have a relevant interest as at the date of this Explanatory Memorandum.

DIRECTOR	ABP SECURITIES	ASF SECURITIES
John Thame	55,365	Nil
Frank Wolf	2,837,465	Nil
William J Bartlett	22,807	Nil
David Bastian	500,000	Nil
Malcolm Irving	27,781	Nil
Myra Salkinder	Nil	Nil
Leonard Lloyd	11,185	40,000

The directors have no material interest in the Merger or any other arrangement or matters contemplated by this Explanatory Memorandum except that they hold the above securities or as otherwise disclosed in this Explanatory Memorandum.

The effect of the Merger on their interests is from the same as its effect on the like interests of other persons.

12.5.2 Agreements or arrangements with directors

Other than as set out in this Section or elsewhere in this Explanatory Memorandum, no payment or other benefit is proposed to be made or given (in connection with or conditional on the Merger) to any director, proposed director, secretary or executive officer of a Merger Entity as compensation for loss of, or as consideration for or in connection with his or her retirement from office in the Merger Entities or their related bodies corporate.

Other than as set out in this Section or elsewhere in this Explanatory Memorandum, there are no agreements or arrangements made between a director or proposed director of the Merger Entities and another person in connection with or conditional on the implementation of the Merger. However, directors will be entitled to participate in the Merger in respect of the ABP securities set out in the table above to the extent permitted by law.

12.5.3 Insurance and indemnities

The constitutions of the AGHL, AGPL, ASOL, ASFML and AFML currently contain provisions indemnifying (to the full extent permitted by law) each director of the ABP Entities and the ASF Entities against all liabilities incurred as a director (unless the liability arises out of misconduct by a director). ABP and ASF also maintain insurance policies for the benefit of their officers, including directors, which insures them and their officers against all liabilities incurred while acting in those capacities, as permitted by applicable law and on market standard terms.

12.5.4 Other interests of directors

Other than as set out in this Section or elsewhere in this Explanatory Memorandum:

- no director or proposed director of a Merger Entity has, or has had at any time in the two years before the date of this Explanatory Memorandum, any interests in:
 - the formation or promotion of any Merger Entity;
 - property acquired or proposed to be acquired by any Merger Entity in connection with its formation or promotion or issue of securities; or
 - the issue of securities; and
- no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to any director or proposed director of a Merger Entity:
 - to induce him or her to become, or to qualify as, a director of the relevant Merger Entity; or
 - for services which he or she has provided in connection with either the formation or promotion of a Merger Entity or the issue of securities under the Merger.

12.5.5 Interests of ABP and related parties

Interests of ABP and related parties are disclosed in Note 26 of the 30 June 2011 ABP Annual Report and Accounts which are available through the internet from ASIC or ASX and at www.abacusproperty.com.au.

Interests of ASF and related parties are disclosed in Note 16 of the 30 June 2011 ASF Annual Report and Accounts which are available through the internet from ASIC and at www.abacusproperty.com.au.

12.5.6 Interests of third parties

Other than as set out below, no expert or any firm in which an expert is a partner or executive, has an interest that exists as at the date of this Explanatory Memorandum, or that existed within two years before that date, in the formation or promotion of the Merged Group, or in any property proposed to be acquired by it or in the offer of New Stapled Securities. No amount has been paid or agreed to be paid to an expert in the last two years for services rendered by the expert or any such firm in connection with the promotion or inception of the Merged Group other than interests or amounts resulting from the following arrangements:

- Lawler Corporate Finance Pty Limited has provided an Independent Expert's report on the Merger and has been paid (or ABP and ASF have agreed to pay) approximately \$180,000 for this service.
- Ernst & Young Transaction Advisory Services Limited has provided an Independent Accountant's report on the pro forma financial information in this Explanatory Memorandum and has been paid (or ABP and ASF have agreed to pay) approximately \$120,000 for this service.
- Greenwoods and Freehills Pty Limited has provided a tax report for inclusion in this Explanatory Memorandum and has been paid (or ABP and ASF have agreed to pay) approximately \$60,000 for this service.
- Freehills has provided Australian legal advice (other than in respect of taxation matters) in relation to the Merger and has been paid (or ABP and ASF have agreed to pay) approximately \$500,000 for this service to the date of this Explanatory Memorandum. Further amounts may be paid to Freehills in accordance with its usual fee arrangements.
- Quigg Partners has provided New Zealand legal advice in relation to the Merger and has been paid (or ABP and ASF have agreed to pay) approximately \$55,000 for this service.
- LINWAR Securities Pty Limited has acted as the Sale Bank for the Sale Facility and has been paid (or ABP and ASF have agreed to pay) \$40,000 for this service.

12.6 Directors' consent as to lodgment

This Explanatory Memorandum is authorised by each ABP Director and ASF Director (including Myra Salkinder), each of whom has given (and not withdrawn) their consent to lodgment of this Explanatory Memorandum with ASIC.

However, Myra Salkinder is not independent due to her association with the Kirsh Group and accordingly has abstained from voting on the Merger proposal.

12.7 Consents and disclaimers

Written consents to the issue of this Explanatory Memorandum have been given, and at the time of lodgment of this Explanatory Memorandum with ASIC, had not been withdrawn by the following parties:

- Lawler Corporate Finance Pty Limited has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as the Independent Expert appointed by ABP and ASF in relation to the Merger in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Explanatory Memorandum of its Independent Expert's Report and a summary of that report in the form and context in which they are included;
- Ernst & Young Transaction Advisory Services Limited has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as Investigating Accountant to ABP and ASF in relation to the Merger in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Explanatory Memorandum of its Investigating Accountant's Report in the form and context in which it is included;
- Greenwoods & Freehills Pty Limited has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as Australian taxation adviser to ABP and ASF in relation to the Merger in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Explanatory Memorandum of its tax report in the form and context in which it is included;
- Freehills has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as Australian legal adviser (other than in respect of taxation matters) to ABP and ASF in relation to the Merger in the form and context in which it is named;
- Quigg Partners has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as New Zealand legal adviser (other than in respect of taxation matters) to ABP and ASF in relation to the Merger in the form and context in which it is named; and
- Boardroom Pty Limited has given, and has not withdrawn prior to the lodgment of this Explanatory Memorandum with ASIC, its written consent to be named in this Explanatory Memorandum as the Registry in the form and context in which it is named.

No entity or person referred to above (other than the ABP Directors and the ASF Directors) has made any statement that is included in this Explanatory Memorandum or any statement on which this Explanatory Memorandum is based, except as stated above. Each of the persons or entities referred to above (other than the ABP Directors and the ASF Directors) has not authorised or caused the issue of this Explanatory Memorandum, does not make any offer of securities and, subject to applicable law, expressly disclaims and takes no responsibility for any statements or omissions in this Explanatory Memorandum except as stated above.

13 GLOSSARY

Term	Meaning
\$ or A\$	Australian dollars, the lawful currency of the Commonwealth of Australia
AASB	Australian Accounting Standards Board
ABP	Abacus Property Group, comprising AT, AGHL, AIT and AGPL
ABP Board	the Board of directors of AGHL, AGPL and AFML (excluding Myra Salkinder where the Board met to consider the Merger. Myra Salkinder abstained from voting on the Merger as she is not independent due to her association with the Kirsh Group)
ABP Director	each member of the ABP Board
ABP Entity	each of AT, AGHL, AIT and AGPL
ABP security	a Stapled security comprising an AGHL share, an AT unit, an AGPL share and an AIT unit
ABP securityholder	a holder of an ABP security
ADIF II	Abacus Diversified Income Fund II (ARSN 116 429 844)
AFML	Abacus Funds Management Limited (ACN 007 415 590)
AGHL	Abacus Group Holdings Limited (ACN 080 604 619)
AGHL share	an ordinary share in AGHL
AGPL	Abacus Group Projects Limited (ACN 104 066 104)
AGPL share	an ordinary share in AGPL
AHF	Abacus Hospitality Fund, comprising Abacus Hospitality Trust (ARSN 123 146 798) and Abacus Hospitality Limited (ACN 116 839 304)
AIT	Abacus Income Trust (ARSN 104 934 287)
AIT unit	a unit in AIT
AJT	Abacus Jigsaw Trust
AMSF	Abacus Miller Street Holding Trust (ARSN 125 343 106)
ASF	Abacus Storage Fund, comprising ASPT and ASOL
ASF Board	the Board of directors of ASOL and ASFML (excluding Myra Salkinder where the Board met to consider the Merger. Myra Salkinder abstained from voting on the Merger as she is not independent due to her relationship with the Kirsh Group)
ASF Director	each member of the ASF Board
ASF Entity	each of ASPT and ASOL
ASF security	a Stapled security comprising an ASPT unit and an ASOL share
ASF securityholder	a holder of an ASF security
ASFML	Abacus Storage Funds Management Limited (ACN 109 324 834)
ASIC	Australian Securities and Investments Commission
ASOL	Abacus Storage Operations Limited (ACN 112 457 075)
ASOL share	an ordinary share in ASOL
ASPT	Abacus Storage Property Trust (ARSN 111 629 559)
ASPT unit	an ordinary unit in ASPT
ASX	Australian Securities Exchange Limited or the market conducted by it, as the context requires
AT	Abacus Trust (ARSN 096 572 128)
AT unit	a unit in AT

Term	Meaning
AWCF	Abacus Working Capital Facility
AWLF	Abacus Wodonga Land Fund (ARSN 114 756 188)
Business Day	a business day for the purposes of the Listing Rules
Corporations Act	the Corporations Act 2001 (Cth)
Covenant Gearing	has the meaning given in Section 6.4
Directly Owned Property	real property owned and held for investment
Director	an ABP Director or an ASF Director, as applicable
DPS	distribution per stapled security
DRP	Abacus Property Group Distribution Reinvestment Plan
EBITDA	Earnings before interest tax and depreciation and amortisation
Election Form	the Election Form accompanying this Explanatory Memorandum
Explanatory Memorandum	this explanatory memorandum in respect of the Merger
Fair market value	the fair market value of a security as determined by the Independent Expert
Foreign Securityholder	an ABP securityholder or an ASF securityholder on the Stapling Record Date whose address in the relevant register is a place outside Australia or New Zealand
FY	a financial year, being a period of 12 months ending on 30 June each year
GFC	the global financial crisis
Group Gearing	net debt (debt minus cash) divided by total assets minus cash, excluding any impact of AASB 10
Implementation Date	6 March 2012 or 3 Business Days after the date that the last of the conditions precedent to the Merger is satisfied
Implementation Deed	the deed entered into between AFML (as responsible entity of AT and AIT), AGHL, AGPL, ASOL and ASFML (as responsible entity of ASPT) dated January 2012
Independent ABP Directors	each ABP Director other than Myra Salkinder, who is not considered independent due to her relationship with the Kirsh Group.
Independent ASF Directors	each ASF Director other than Myra Salkinder, who is not considered independent due to her relationship with the Kirsh Group.
Independent Expert	Lawler Corporate Finance Pty Limited
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited
IRR	internal rate of return
Kirsh Group	Calculator Australia Pty Limited, KiFin Limited and their associates
Listing Rules	the listing rules (including the appendices) of the ASX as amended from time to time
Meeting Date	the date of the meetings of ABP securityholders and ASF securityholders in relation to the Merger
Merged Group	the group resulting from the Stapling of the ASF securities to the ABP securities
Merged Group Stapled Securityholder	a holder of New Stapled Securities
Merger	the proposed arrangement by which AT units and AIT units, Restructured ASPT units, AGHL and AGPL shares and Restructured ASOL shares are Stapled to each other
Merger Distribution	a distribution of \$0.14 per ASF security (other than ASF securities owned by ABP) paid in cash, comprising a fully franked dividend of \$0.087 and a capital distribution of \$0.053
Merger Entities	AT, AIT, AGHL, AGPL, ASOL and ASPT

Term	Meaning
Merger Ratio	has the meaning given in Section 5.3
NAV	net asset value
New Stapled Security	one AT unit, one AIT unit, one AGHL share, one AGPL share, one Restructured ASOL share and one Restructured ASPT unit, Stapled to each other on a 1: 1: 1: 1: 1: 1 basis
Notice of Meeting	the notice of meeting sent to ABP securityholders with this Explanatory Memorandum and the notice of meeting sent to ASF securityholders with this Explanatory Memorandum.
NTA or Net Tangible Assets	net assets less intangible assets
Other Property Assets	real property or real property related assets that are not Directly Owned Property
Registry	Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000
Responsible entity	in respect of AT and AIT, AFML and in respect of ASPT, ASFML
Restructured ASF security	a Stapled security comprising one Restructured ASOL share and one Restructured ASPT unit
Restructured ASOL share	an ASOL share after the split and subsequent consolidation of each existing ASOL share
Restructured ASPT unit	an ASPT unit after the split and subsequent consolidation of each existing ASPT unit
Sale Bank	LINWAR Securities Pty Limited who will facilitate the Sale Facility
Sale Facility	the facility under which ASF securityholders and Foreign Securityholders are required to transfer the legal title to the ABP securities and ASF securities they hold on the Implementation Date to the Sale Bank for sale
Selling ASF securityholder	an ASF securityholder who has elected to participate in the Sale Facility by completing and validly submitting the Election Form in accordance with the terms of this Explanatory Memorandum
Stapled or Stapling	in the case of two or more securities, none of them may be dealt with without the others being dealt with in an identical manner and at the same time and with such restriction on dealing being denoted on the register of each stapled entity in which the securities are on issue
Stapling Deed	a deed between AGHL, AGPL and AFML to be dated on or around 24 February 2012, to which ASOL and ASFML will become party on or about the Stapling Record Date
Stapling Record Date	7.00pm (Sydney time) on 5 March 2012 or such other time agreed between AGHL, AGPL, AFML, ASOL and ASFML and permitted by the ASX
Storage King	Storage King Proprietary Limited (ACN 079 872 281)
VWAP	volume weighted average price
WALE	weighted average lease expiry
Wholesale Third Party Capital Alliances	investment by institutions or by sophisticated investors or wholesale clients
You or Your	either an ABP securityholder or an ASF securityholder, as applicable

14 CORPORATE DIRECTORY

Investor Enquiries and Registry

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000

GPO Box 3993
Sydney NSW 2001

T 1300 139 440
T +61 2 9290 9600 (outside Australia)
abacus@boardroomlimited.com.au

Abacus Property Group

Level 34 Australia Square
264-278 George Street
Sydney NSW 2000

T 02 9253 8600
F 02 9253 8616
enquiries@abacusproperty.com.au
www.abacusproperty.com.au

ATTACHMENT 1 - INVESTIGATING ACCOUNTANT'S REPORT

13 January 2012

The Board of Directors
Abacus Property Group
Attention: Rod de Aboitiz
Level 34, Australia Square
264-278 George Street
Sydney NSW 2000

Dear Directors

PART 1 - INVESTIGATING ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION AND PRO FORMA FINANCIAL INFORMATION

1. Introduction

We have prepared this Investigating Accountant's Report (the "Report") on the historical and Pro forma financial information of Abacus Property Group ('ABP') for inclusion in the Abacus Merged Group Explanatory Memorandum ('Explanatory Memorandum') to be dated on or around 13 January 2012, and to be issued by Abacus Property Group ('ABP'), in respect of the transaction relating to the stapling of the Abacus Storage Fund ("ASF") to ABP (the 'Transaction') and the consolidation under AASB10 resulting in a merged group of ABP, ASF, Abacus Miller Street Holding Trust, Abacus Hospitality Fund and Abacus Diversified Income Fund II (the "Merged Group").

Expressions defined in the Explanatory Memorandum have the same meaning in this Report.

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an Australian Financial Services Licence (AFS Licence Number 240585). Tony Connolly is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this Report.

2. Scope

Ernst & Young Transaction Advisory Services Limited has been requested to prepare this Report to cover the following financial information:

Pro Forma Financial Information

The pro forma financial information as set out in Sections 10.3 to 10.9 of the Explanatory Memorandum comprises:

- the Merged Group pro forma consolidated statement of financial position as at 30 June 2011; and
- the Merged Group pro forma consolidated income statement for the year ended 30 June 2011.

(Hereafter the 'Merged Group Pro Forma Financial Information')

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The Merged Group Pro Forma Financial Information assumes completion of the proposed transactions outlined in Sections 10.3 to 10.9 of the Explanatory Memorandum.

The Merged Group Pro Forma Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports.

3. Directors' Responsibility for the Financial Information

The Directors of ABP have prepared and are responsible for the preparation and presentation of the Merged Group Pro forma Financial Information. The Directors are also responsible for the determination of the pro forma adjustments as set out in Sections 10.3 to 10.9 of the Explanatory Memorandum.

4. Our Responsibility for the Financial Information

Our responsibility is to express a conclusion on the Merged Group Pro Forma Financial Information based on our review. We have conducted an independent review of the Merged Group Pro Forma Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- a. The Pro Forma assumptions, including management's best estimate assumptions regarding synergies, do not provide a reasonable basis for the Merged Group Pro Forma Financial Information;
- b. The Merged Group Pro Forma Financial Information has not been prepared on the basis of the assumptions set out in Sections 10.3 to 10.9 of the Explanatory Memorandum;
- c. The Merged Group Pro Forma Financial Information does not present fairly:
 - o the Merged Group Pro Forma consolidated statement of financial position as at 30 June 2011; and
 - o the Merged Group Pro Forma consolidated income statement for the year ended 30 June 2011

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions set out in Sections 10.3 to 10.9 of the Explanatory Memorandum had occurred at 30 June 2011.

Our independent review of the Merged Group Pro Forma Financial Information has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. Our procedures consist of reading of relevant Board minutes, reading of relevant contracts and other legal documents, inquiries of management personnel and the Directors of ABP, and analytical and other procedures applied to ABP's accounting records. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Merged Group Pro Forma Financial Information.

5. Review conclusion on the Merged Group Pro Forma Financial Information

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that:

- a. The Pro Forma assumptions, including management's best estimate assumptions regarding synergies, do not provide a reasonable basis for the Merged Group Pro Forma Financial Information;
- b. The Merged Group Pro Forma Financial Information has not been prepared on the basis of the assumptions set out in Sections 10.3 to 10.9 of the Explanatory Memorandum;
- c. The Merged Group Pro Forma Financial Information does not present fairly:
 - o the Merged Group Pro Forma consolidated statement of financial position as at 30 June 2011; and
 - o the Merged Group Pro Forma consolidated income statement for the year ended 30 June 2011

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions set out in Sections 10.3 to 10.9 of the Explanatory Memorandum had occurred at 30 June 2011.

We disclaim any assumption of responsibility for any reliance on this Report or on the Merged Group Pro Forma Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared. This Report should be read in conjunction with the Explanatory Memorandum.

6. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Ernst & Young provides audit and other advisory services to ABP. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited



Tony Connolly
Director and Representative

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INVESTIGATING ACCOUNTANT'S REPORT
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PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus

or profit share depending on their level of seniority. The estimated fee for this Report is between \$110,000 and \$140,000 (exclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<p>Contacting Ernst & Young Transaction Advisory Services</p> <p>AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Scheme:</p> <p>Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08</p>
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

ATTACHMENT 2 – TAX REPORT

The Directors
Abacus Storage Funds Management Limited
Abacus Storage Operations Limited
Abacus Funds Management Limited
Abacus Group Holdings Limited
Abacus Group Projects Limited
Level 34, Australia Square
264-278 George Street
SYDNEY NSW 2000

16 December 2011
27551

Dear Sirs

Australian Taxation Report

We have been asked by Abacus to prepare a taxation report on the Australian taxation issues arising in relation to the transactions described in detail in the Explanatory Memorandum and summarised below (the "**Stapling Proposal**").

The information contained in this report is of a general nature only. It does not constitute tax advice and should not be relied upon as such. This report outlines the general Australian taxation implications for Abacus Property Group ("**ABP**") Stapled Securityholders and Abacus Storage Fund ("**ASF**") Stapled Securityholders in respect of their participation in the Stapling Proposal.

The taxation report considers the taxation consequences of the Stapling Proposal for ABP Stapled Securityholders and ASF Stapled Securityholders who are individuals, complying superannuation entities and companies holding their investments in ABP and ASF on capital account. We have not considered the taxation consequences for:

- ABP Stapled Securityholders and ASF Stapled Securityholders who hold their securities on revenue account such as banks and other trading entities;
- non-resident ABP Stapled Securityholders and ASF Stapled Securityholders who hold, together with associates, an interest of 10% or more in ABP or ASF;
- non-resident ABP Stapled Securityholders and ASF Stapled Securityholders who currently hold ABP Stapled Securities or ASF Stapled Securities (or who will hold those securities) through a permanent establishment in Australia;
- non-resident ABP Stapled Securityholders and ASF Stapled Securityholders who made an election to treat their securities as taxable Australian property when they ceased to be an Australian resident; or
- securityholders whose gains and losses on their securities are subject to the taxation of financial arrangement ("**TOFA**") rules in Division 230 of the *Income Tax Assessment Act 1997*.

All investors should seek independent professional advice on the consequences of their participation in the Stapling Proposal, based on their particular circumstances. ABP Stapled Securityholders and ASF Stapled Securityholders who are not resident in Australia should obtain advice on the taxation implications arising in their local jurisdiction of participating in the Stapling Proposal.

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Unless otherwise stated, terms used in this report are defined in the same way as they are in the Explanatory Memorandum.

This report is based on the provisions of the *Income Assessment Act 1936*, the *Income Tax Assessment Act 1997*, the *A New Tax System (Goods and Services Tax) Act 1999* and related acts, regulations and Australian Taxation Office (“ATO”) rulings and determinations applicable as at the date of this letter.

1 Background

A detailed description of the Stapling Proposal is set out in Section 5.5 of the Explanatory Memorandum.

The Stapling Proposal involves:

- ASF Stapled Securityholders receiving a Merger Distribution being a franked dividend from Abacus Storage Operations Limited (“ASOL”) and a return of capital from Abacus Storage Property Trust (“ASPT”) (“**Merger Distribution**”);
- Abacus Income Trust (“AIT”) and Abacus Trust (“AT”) making a capital return to ABP Stapled Securityholders being a cash payment and distribution of ASF Securities (“**ABP Capital Return**”) and using that cash on behalf of those securityholders to apply for shares in ASOL and units in ASPT;
- ASF making a capital return to ASF Stapled Securityholders (“**ASF Capital Return**”) and using that capital on behalf of those securityholders to apply for shares in AGHL and AGPL and units in AT and AIT;
- ASF Securities being consolidated to form Restructured ASF Securities; and
- ABP Stapled Securities and Restructured ASF Stapled Securities being stapled to form a new ABP Stapled Security (“**New Stapled Security**”).

The general taxation consequences for ASF Stapled Securityholders and ABP Stapled Securityholders of participating in the Stapling Proposal are outlined below.

2 General Tax Consequences of the Stapling Proposal for Australian resident ASF Stapled Securityholders and ABP Stapled Securityholders

2.1 Splitting, stapling and consolidating securities

No taxable event for CGT purposes will happen for ASF Stapled Securityholders and ABP Stapled Securityholders when securities are split, consolidated or stapled under the Stapling Proposal.

2.2 Cost base of securities received from splitting and consolidating securities

In circumstances of a split, the cost base of the original securities, as at the time of splitting, should be apportioned to the securityholder’s new split securities in a reasonable way. The date of acquisition of the split securities should be the same as the original securities.

In the case of a consolidation, the sum of a securityholder’s cost base in the securities that are consolidated into each consolidated security, as at the time of consolidation, should be the securityholder’s cost base of each new consolidated security. The date of acquisition of the consolidated security will be the same as the original securities which are consolidated. Where a securityholder has acquired their original securities over a number of dates, the acquisition date of the consolidated security should be apportioned over those acquisition dates on a reasonable basis.

2.3 Value Shifting

There will be no consequences for an ASF Stapled Securityholder or an ABP Stapled Securityholder under the Direct Value Shifting or Indirect Value Shifting provisions in Divisions 725 or 727 of the *Income Tax Assessment Act 1997* from the Proposed Stapling.

3 Specific Tax consequences for ASF Stapled Securityholders

3.1 Tax treatment of Merger Distribution

The Merger Distribution will consist of a franked dividend paid by ASOL and a wholly tax deferred (non-assessable) distribution by ASPT. That is, unless a capital gain arises as discussed below, the distribution by ASPT will not be included in the assessable income of the ASF Stapled Securityholders.

Franked dividend

The sum of the dividend and the attached franking credits should generally be included in an ASF Stapled Securityholder's assessable income. The franking credits enable Australian resident investors to receive a rebate or tax offset for the tax already paid by the company. This rebate or tax offset may be offset against tax payable. Certain taxpayers may be entitled to a tax refund if the tax offsets received are greater than their tax payable. Relevant taxpayers include Australian resident individuals, complying superannuation funds and registered charities.

An ASF Stapled Securityholder may be denied the benefit of franking tax offsets or rebates in circumstances where they do not invest for a continuous period of 45 days (ignoring the day of acquisition and disposal). In determining whether the 45 day period is satisfied, a 'last in, first out' basis applies. If the securities in ASF are hedged, this may affect whether the investment is taken to be held on a particular day. However, this holding period rule will not apply to a securityholder that is an individual and the total franking tax offsets they are eligible to claim in respect of all their investments do not exceed \$5,000.

Tax deferred (non-assessable) distribution

ASF Securityholders should reduce the cost base of their units (but not below zero) in ASPT by the amount of the tax deferred distribution that is paid by ASPT.

An ASF Securityholder whose cost base in its units in ASPT is less than the amount of the tax deferred distribution paid by ASPT will make a capital gain to the extent of that difference.

If an ASF Stapled Securityholder is an individual, a complying superannuation entity or a trustee and acquired (or is taken to have acquired) for CGT purposes their ASF Stapled Securities at least 12 months prior to the date of the Merger Distribution, the amount of the securityholder's capital gain that may arise from the tax deferred distribution can be reduced by the relevant CGT discount. In calculating the securityholder's capital gain, the cost base must not be indexed.

If an ASF Stapled Securityholder who is an individual or trustee applies the CGT discount method, that securityholder's taxable capital gain (after offsetting any current year capital losses or carry forward net capital losses from previous years) will be reduced by one-half (or one-third if the securityholder is a complying superannuation entity).

If the securityholder is a company, the CGT discount is not available.

3.2 Tax treatment of ASF Capital Return

The ASF Capital Return paid to ASF Stapled Securityholders will be wholly tax deferred (non-assessable) to those securityholders. That is, unless a capital gain arises as discussed below, the distribution by ASPT will not be included in the assessable income of the ASF Stapled Securityholders.

ASF Stapled Securityholders should reduce the cost base of their restructured units (but not below zero) in ASPT by the amount of the ASF Capital Return.

An ASF Stapled Securityholder whose cost base in its restructured units in ASPT is less than the amount of the ASF Capital Return paid by ASPT will make a capital gain to the extent of that difference.

Refer to comments in 3.1 which sets out the general treatment of this capital gain.

3.3 Acquisition of ABP Stapled Securities by ASF Stapled Securityholders

An ASF Stapled Securityholder's cost base in the ABP Stapled Securities it acquires as a result of the Proposed Stapling will include the ASF Capital Return paid to that ASF Stapled Securityholder and applied for the subscription of those ABP Stapled Securities.

An ASF Stapled Securityholder will not receive any rights to acquire stapled securities in the ABP Group that should be included in an ASF Stapled Securityholder's assessable income.

An ASF Stapled Securityholder will be taken to acquire the ABP Stapled Securities at the time they are issued by ABP. Consequently, the ASF Stapled Securityholder will not be entitled to apply the CGT discount in respect of the ABP Stapled Securities where there is a disposal of the New Stapled Security within 12 months of this date.

3.4 Tax consequences for ASF Selling Securityholders

If an ASF Selling Securityholder makes a capital gain on disposal of their ASF Stapled Security such securityholders may be entitled to discount treatment (refer to comments in 3.1 which sets out the general treatment of such gain).

4 Specific Tax Consequences of the Stapling Proposal for Australian Resident ABP Stapled Securityholders

4.1 Tax treatment of ABP Capital Return

The ABP Capital Return paid to ABP Stapled Securityholders will be wholly tax deferred (non-assessable) to those securityholders. That is, unless a capital gain arises as discussed below, the ABP Capital Return will not be included in the assessable income of the ABP Stapled Securityholders.

ABP Stapled Securityholders should reduce the cost base of their units (but not below zero) in AIT and AT by the proportion of the ABP Capital Return that is paid by AIT and AT respectively. The proportion of the ABP Capital Return that will be paid by AIT and AT is as follows:

- AIT will pay a cash amount per ABP Stapled Security. As such, the cost base of each of an ABP Stapled Securityholder's units in AIT should be reduced (but not below zero) by this amount; and
- the amount of the ABP Capital Return that will be paid by AT will be:
 - a cash amount per ABP Stapled Security; and
 - a distribution of the Split ASF Stapled Securities held by AT.

As such, the cost base of each of an ABP Stapled Securityholder's units in AT should be reduced (but not below zero) by the cash amount and the market value of the Split ASF Stapled Securities which are distributed.

An ABP Stapled Securityholder whose cost base in its AIT or AT units is less than the amount of the ABP Capital Return that is paid by AIT or AT respectively will make a capital gain to the extent of that difference. Refer to comments in 3.1 in relation to the general treatment of this capital gain.

4.2 Acquisition of Split ASF Stapled Securities by ABP Stapled Securityholders

An ABP Stapled Securityholder's cost base in the Split ASF Stapled Securities it acquires as a result of the Proposed Stapling will include the ABP Capital Return paid to that ABP Stapled Securityholder.

As such, the cost base of an ABP Stapled Securityholder in the ASF Stapled Securities it acquires as a result of the Proposed Stapling should include:

- the cash amount paid to that ABP Stapled Securityholder and applied by ABP for the subscription of those Split ASF Stapled Securities; and
- the market value of the Split ASF Stapled Securities transferred to that ABP Stapled Securityholder.

An ABP Stapled Securityholder will not receive any rights to acquire stapled securities in ASF that should be included in an ABP Stapled Securityholder's assessable income.

An ABP Stapled Securityholder will be taken to acquire the Split ASF Stapled Securities at the time they are issued by ASF. Consequently, the ABP Stapled Securityholder will not be entitled to apply the CGT discount in respect of the ASF Split Stapled Securities where there is a disposal of the New Stapled Security within 12 months of this date.

5 General Tax Consequences of the Stapling Proposal for non-resident ABP Stapled Securityholders and ASF Stapled Securityholders

The Merger Distribution, the ABP Capital Return and the ASF Capital Return will be wholly non-assessable to the non-resident ABP Stapled Securityholders and ASF Stapled Securityholders.

Any capital gain or loss made by a foreign resident ABP Stapled Securityholder in relation to an ABP Stapled Security as a consequence of the Stapling Proposal will be disregarded on the basis that ABP Stapled Securities should not be 'taxable Australian property'.

Any capital gain or loss made by a foreign resident ASF Stapled Securityholder in relation to an ASF Stapled Security as a consequence of the Stapling Proposal will be disregarded on the basis that ASF Stapled Securities should not be 'taxable Australian property'.

6 Australian Withholding Tax

No amount should be withheld from the ABP Capital Return payable to an Australian resident ABP Stapled Securityholder, whether or not that entity has quoted a tax file number to AIT or AT, as no part of the distribution would represent ordinary income of the entity.

No amount should be withheld from the Merger Distribution or the ASF Capital Return payable to an Australian resident ASF Stapled Securityholder, whether or not that entity has quoted a tax file number to ASF or ASOL, as no part of the distribution would represent ordinary income of the entity (other than fully franked dividends).

No amount should be withheld from the ABP Capital Return payable to a non-resident ABP Stapled Securityholder, as no part of the distribution will represent a distribution of taxable income by AT or AIT.

No amount should be withheld from the Merger Distribution or the ASF Return payable to a non-resident ASF Stapled Securityholder, as no part of the distribution by ASPT will represent a distribution of taxable income by ASPT and the distribution by ASOL will be exempt from withholding tax as a fully franked dividend.

7 Goods and Services Tax ("GST")

No GST should generally be payable in respect of the transactions outlined above. As these all involve dealings with securities, the various supplies will be input taxed (i.e. not subject to GST).

There may be an indirect GST cost for securityholders who are registered for GST as input tax credits will generally not be available for GST charged to the acquirer in respect of supplies relating to the dealings with these securities (e.g. legal and other adviser fees).

8 Other Issues

8.1 Future tax deferred (non-assessable) distributions

As outlined above, the ABP Capital Return, the ASF Capital Return and the capital return component of the Merger Distribution will be wholly tax deferred (non-assessable) distributions. Securityholders that receive these distributions should reduce the cost base of their units in AT, AIT and ASPT by the amount of the distributions that relate to those units (but not below zero). As a result, a securityholder may have a lower cost base in each of the units that they hold in AT, AIT or ASPT.

Consequently, if after the Stapling Proposal additional tax deferred (non-assessable) distributions are made by ABP to securityholders that hold New Stapled Securities, a securityholder may have a capital gain where their cost base in a unit is less than any such additional tax deferred (non-assessable) distributions paid to the securityholder in respect of the relevant unit.

In addition, if subsequent to the Stapling a securityholder disposes of a New Stapled Security, that securityholder will dispose of a unit in each of AT, AIT and ASPT at that time. Since a securityholder's cost base of their units will have been reduced by the ABP Capital Return, the ASF Capital Return or the Merger Distribution, that securityholder should have a lower cost base in these units for the purposes of calculating the securityholder's capital gain on disposal of the New Stapled Security. Conversely, a securityholder's cost base in its AGHL, GPL and ASOL shares will have increased by the amount of these distributions that are applied in buying those shares.

8.2 Provision of Tax File Number and / or Australian Business Number

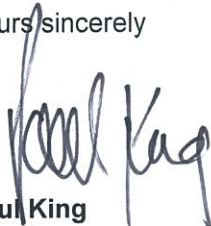
ABP Stapled Securityholders would have been invited to provide ABP with their Tax File Number ("TFN") or Australian Business Number ("ABN") or exemption when they first acquired their ABP Stapled Securities. Similarly, ASF Stapled Securityholders would have been invited to provide ASF with their TFN/ABN exemption when they first acquired their ASF Stapled Securities. If no TFN/ABN exemption was quoted to ABP or ASF, ABP or ASF would have deducted tax from trust distributions paid to the securityholder and the unfranked component of any dividends paid to the securityholder at the highest marginal rate of tax (plus Medicare Levy).

ABP Stapled Securityholders who participate in the Stapling Proposal will acquire ASF Stapled Securities. ASF Stapled Securityholders who participate in the Stapling Proposal will acquire ABP Stapled Securities.

Specific provisions of the *Privacy Act 1988* and the *Taxation Administration Act 1953* prevent ASF from disclosing the TFNs of their securityholders to third parties (which includes ABP). Accordingly, if the Stapling Proposal proceeds, ASF will be unable to disclose the TFNs of ASF Stapled Securityholders to ABP without their consent. ABP Stapled Securityholders provided their TFNs to ABP to be linked to their Holder Identification Number ("HIN") for CHESS registrations or Shareholder Registration Number ("SRN") for issuer sponsored registrations. The HIN/SRN will not be changing as a result of the Stapling Proposal so ABP Stapled Securityholders will not need to resubmit their TFN.

After approval of the Stapling Proposal, ABP will send ASF Stapled Securityholders a form that the securityholder can use to consent to ASF providing their TFN or ABN or exemption to ABP on the ASF Stapled Securityholder's behalf. Securityholders are not obliged to provide their TFN or ABN to ABP. However, if a securityholder does not provide their TFN or ABN or exemption to ABP, tax may be withheld at a rate of 46.5% on any gross distributions made and on any unfranked dividends paid by ABP. However, securityholders will be entitled to claim an income tax credit/refund (as applicable) in respect of the tax withheld in their income tax returns.

Yours sincerely



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ATTACHMENT 3 – INDEPENDENT EXPERT REPORT



**Abacus Property Group
and
Abacus Storage Fund**

Independent Expert's Report

Report date: 9 January 2012

9 January 2012

The Directors

Abacus Property Group
Abacus Storage Fund

Level 34 Australia Square
264 – 278 George Street
SYDNEY NSW 2000

Dear Directors

INDEPENDENT EXPERT'S REPORT MERGER OF ABACUS PROPERTY GROUP AND ABACUS STORAGE FUND

1 Introduction

Abacus Property Group ("**ABP**") is an internally managed, stapled entity, listed on the Australian Securities Exchange ("**ASX**"), providing exposure to a diversified portfolio of commercial, retail, and industrial property, mortgage investments and property development ventures and property funds management activities. ABP's market capitalisation as at 31 October 2011 was \$735 million. ABP owns and manages real estate assets in Australia and New Zealand worth more than \$2,200 million.

Abacus Storage Fund ("**ASF**") is an unlisted stapled entity. ASF is one of the largest participants in the Australasian self-storage industry and owns a diversified portfolio of 41 self storage facilities with 30 in Australia and 11 in New Zealand and one small commercial property, with a total value of approximately \$332 million.

ASF does not have any employees and is externally managed by Abacus Storage Funds Management Limited ("**ASFML**") that is the Responsible Entity for the Abacus Storage Property Trust ("**ASPT**"), being one of the stapled entities. ASFML is ultimately wholly-owned by ABP. Day-to-day management of the self storage facilities is outsourced to the Storage King group of companies, Australasia's largest self storage operator.

The Directors of ABP and ASF have requested this report to assist them in assessing and making a recommendation in relation to the Merger proposal, as summarised below. The Directors believe that obtaining an independent expert's report of this nature is important to assist in the management of conflicts of interest which exist in this circumstance due to the fact of there being substantially common directorships on the boards of ABP and ASF.

2 Merger

It is proposed that:

- ABP and ASF will become merged as a stapled entity ("**Merged Group**") by way of stapling their respective securities ("**New Stapled Securities**"); and
- Calculator Australia Pty Limited, as trustee of Calculator Australia Trust, and KiFin Limited ("**Kirsh Group**") be granted approval to increase their relevant interest in ASF securities from the current 19.955% up to 42.207% in the six month period following the merger ("**Kirsh Proposal**"),

(together, the "**Merger**").

The Kirsh Group is the largest security holder in ABP, with a relevant interest of 39.207%. ABP is the largest security holder in ASF, with a relevant interest of 19.955%. Under the Corporations Act 2001 (Cth) ("**Corporations Act**"), the Kirsh Group is deemed to have a relevant interest in ASF equal to ABP's existing relevant interest and accordingly, also has a relevant interest of 19.955% in ASF. However, as far as ABP and Lawler Corporate Finance Pty Limited ("**LCF**") are aware, the Kirsh Group and its associates do not hold any ASF Securities.

In summary, under the terms of the Merger, existing ASF security holders other than ABP ("**Participating ASF Securityholders**") will be offered approximately 0.538 New Stapled Securities plus 14 cents cash (the "**Merger Distribution**") for each ASF Security held. The allocation of New Stapled Securities in the Merged Group will be by way of a ratio (known as the "**Merger Ratio**") (refer Section 8 below).

If the Merger is implemented:

- Participating ASF Securityholders would acquire securities in the entities comprising ABP (via the stapling process), while retaining reduced percentage interests in the securities of the entities comprising ASF. Participating ASF Securityholders collectively would move from owning 80.045% of ASF to owning 37.6 million New Stapled Securities (approximately 8.9%) in the Merged Group, plus they receive a cash amount totalling \$9.8 million;
- existing ABP security holders ("**ABP Securityholders**") would acquire securities in the entities comprising ASF (via the stapling process), while retaining reduced percentage interests in the securities of the entities comprising ABP. ABP Securityholders collectively would move from owning 100% of ABP to owning approximately 91.1% of the New Stapled Securities in the Merged Group; and
- the Kirsh Group will hold a relevant interest of 35.735% in the New Stapled Securities in the Merged Group (that is, in each of the entities comprising ASF and ABP), and will be allowed to increase their relevant interest and voting power up to 42.207% of the New Stapled Securities in the Merged Group in the six months following the Merger (i.e. the Kirsh Proposal).

Details of the Merger are set out in the Explanatory Memorandum accompanying the Notices of Meetings ("**Notices of Meeting**") to be sent to respective shareholders and unit holders ("**Securityholders**") in each relevant entity comprising ABP and ASF ("**Documents**").

The Merger is subject to the approval of the various resolutions set out in the Notices of Meeting by the Securityholders of each relevant entity comprising ABP and ASF that are not precluded from voting ("**Non-associated Securityholders**") and certain regulatory and other conditions being satisfied.

3 Independent expert's report

3.1 Requirement for an independent expert's report

3.1.1 The Merger generally

LCF understands as follows:

- because of the structure adopted to implement the Merger (that is, by way of a stapling arrangement) the Merger will be implemented simply via a vote of the Non-associated Securityholders in each of ABP and ASF;
- the Corporations Act requires that an independent expert's report ("**IER**") be provided to ABP or ASF Securityholders only in relation to the Kirsh Proposal and not the other aspects of the Merger;

- there is no other regulatory requirement for an IER in relation to the Merger, such as under the ASX Listing Rules ("**Listing Rules**");
- in regard to voting on the various resolutions:
 - ABP resolutions – there are no Securityholders (including Kirsh Group and its associates) that are precluded from voting on any resolution; and
 - ASF resolutions:
 - all ASF Securityholders (including ABP and Kirsh Group (if Kirsh Group held any ASF Securities)) may vote on all resolutions other than those dealing with the Kirsh Proposal; and
 - in relation to the resolutions dealing with Kirsh Proposal, all ASF Securityholders (including ABP) other than the Kirsh Group (if Kirsh Group held any ASF Securities), would be entitled vote on these resolutions.

3.1.2 The Kirsh Proposal

As the Merger is proceeding by way of stapling the securities of ABP and ASF, the Kirsh Proposal requires approval by ASF Securityholders other than the Kirsh Group and its associates ("**Non-associated ASF Securityholders**"). However, as far as ABP and LCF are aware, the Kirsh Group and its associates do not hold any ASF Securities.

It is noted that if the Merger proceeded by way of a takeover of ASF by ABP, then the matters addressed under the Kirsh Proposal would not require separate approval by Non-associated ASF Securityholders.

There are two inter-conditional elements to the Kirsh Proposal:

- the Kirsh Group increasing their relevant interest in ASF from the current 19.955% to 35.735%, as a result of the Merger; and
- the Kirsh Group being permitted to increase their relevant interest in ASF from 35.735% immediately following the Merger up to 42.207% in the six month period following the Merger.

With respect to the Kirsh Proposal, Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in voting securities of a listed company or managed investment scheme or an unlisted company with more than 50 members if the acquisition would increase a person's voting power in the entity:

- from 20% or below to more than 20%;or
- from a starting point that is above 20% and below 90%.

As a result of the Kirsh Group currently having a relevant interest of 39.207% in ABP, the Corporations Act deems that the Kirsh Group also has a relevant interest in ASF equal to ABP's existing relevant interest of 19.955% in ASF.

By stapling ASF and ABP Securities under the Merger, the relevant interest of the Kirsh Group in ABP will decline from 39.207% to 35.735% and in ASF will increase from 19.955% to 35.735%. This increase in relation to ASF would be prohibited under Section 606, unless approved by Non-associated ASF Securityholders under Section 611, Item 7 of the Corporations Act ("**Section 611**").

Further, for a period of 6 months following the Merger, the Kirsh Group would be prohibited from increasing their relevant interest in ASF (and therefore in the Merged Group) above 35.735%, as the 3% every 6 months "creep" provisions of the Corporations Act would not apply in that period. Again, any increase could be approved by Non-associated ASF Securityholders under Section 611.

Whilst Section 611 does not explicitly state that an expert opinion is required in relation to the resolutions of members dealing with proposals such as the Kirsh Proposal, Regulatory Guide 74 *Acquisitions approved by members* ("**RG 74**") issued by the Australian Securities & Investments Commission ("**ASIC**") states that it is the obligation of directors to provide members with full and proper disclosure.

This obligation may be satisfied by commissioning an independent expert to report on whether the proposal is "fair" and "reasonable" to the non-associated security holders, as those terms are defined in Regulatory Guide 111 *Content of expert reports* ("**RG 111**") issued by ASIC.

3.2 This Report

We note that in relation to the ABP resolutions, all ABP Securityholders are entitled to vote and therefore in preparing this Report our advice is to all ABP Securityholders.

In relation to the ASF resolutions, we note that ABP is entitled to vote on all ASF resolutions and Kirsh Group (if it holds any ASF Securities) is entitled to vote on all ASF resolutions except those dealing with the Kirsh Proposal.

In relation to the ASF resolutions, in preparing this Report we have concentrated on assessing the Merger from the point of view of the Participating ASF Securityholders (defined as those ASF Securityholders other than ABP).

In relation to the Kirsh Proposal and the ASF resolutions dealing with the Kirsh Proposal, we have addressed our opinion to Non-associated ASF Securityholders (defined as ASF Securityholders other than the Kirsh Group and its associates, if they hold any ASF Securities).

The directors of each of the various entities involved in the Merger ("**Directors**") have requested that:

- LCF prepare an IER so as to fulfil their duties as directors and ensure that the ABP Securityholders, Participating ASF Securityholders and Non-associated ASF Securityholders are given the necessary information to enable them to make informed decisions in relation to the Merger and Kirsh Proposal; and
- in preparing the IER and forming its opinions, LCF should meet analysis and disclosure standards comparable (as applicable to the Merger and the Kirsh Proposal, as appropriate) to requirements as if ABP and ASF were contemplating a scheme of arrangement and provide an opinion as to whether or not the Merger and Kirsh Proposal, as appropriate, is "fair" and "reasonable" to, and "in the best interest" of, (as those terms are defined in RG 111 (as applicable)):
 - Participating ASF Securityholders as a whole;
 - ABP Securityholders as a whole; and
 - Non-associated ASF Securityholders as a whole,
 and state the reasons for reaching those opinions.

Accordingly, this Report has been prepared by LCF to assist Directors in making their recommendation to the ABP Securityholders, the Participating ASF Securityholders and Non-associated ASF Securityholders and to assist those Securityholders in their considerations of whether or not to vote to approve the Merger, and in the case of Non-associated ASF Securityholders, in relation to the Kirsh Proposal.

This Report is intended to accompany the Documents to be provided by the Directors to the ABP Securityholders, the Participating ASF Securityholders and the Non-associated ASF Securityholders.

This Report should not be used for any other purposes or by any other party. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

3.3 Summary of Conclusions

Participating ASF Securityholders

In summary, our opinion is that the Merger is “not fair”, but is “reasonable” to, and “in the best interest” of, Participating ASF Securityholders, as a whole, in the absence of a superior proposal.

Non-associated ASF Securityholders

In summary, our opinion is that the Kirsh Proposal regarding the Kirsh Group increasing their holding in ASF is “not fair”, but is “reasonable” to, and “in the best interest” of, Non-associated ASF Securityholders, in the absence of a superior proposal.

ABP Securityholders

In summary, our opinion is that the Merger is “fair”, and therefore is “reasonable” to, and “in the best interest” of, ABP Securityholders, as a whole, in the absence of a superior proposal.

Our reasons for reaching these conclusions are summarised below.

4 Assessment of Merger for Participating ASF Securityholders

4.1 Summary of conclusions

In summary, our opinion is that the Merger is not “fair”, but is “reasonable” to, and “in the best interest” of, Participating ASF Securityholders, as a whole, in the absence of a superior proposal.

4.2 Basis of assessment

In assessing the fairness of the Merger to Participating ASF Securityholders, we have followed the ASIC RG 111 procedure in respect of Control Transactions that requires the assessment of the value of an ASF Security on a control basis and the New Stapled Security comprising part of the Consideration offered for an ASF Security to be valued on a minority basis.

4.3 Value of an ASF Security

We have assessed the fair market value of an ASF Security, on a control basis, at between \$1.24 and \$1.25. This value is based on the net assets/net tangible assets of ASF as at 30 June 2011, (after various adjustments explained in the body of this report (refer Section 16)) and compares to the net asset/net tangible asset backing per ASF Security based on the audited financial statements of ASF as at 30 June 2011 of \$1.29 (after assumed conversion to equity of the ASF Abacus Working Capital Facility (“**ASF AWCF**”) advanced by ABP to ASF (refer Section 12.9.5).

4.4 Value of a New Stapled Security

We have assessed the fair market value of a New Stapled Security on a minority interest basis as being equivalent to the assessed the fair market value of an ABP Security on a minority interest basis (refer Section 15.3). The value of ABP Securities on a minority interest basis has been determined with reference to recent volume weighted average market trading prices of between \$1.90 and \$2.00 per security (refer Section 11.12).

4.5 Value of Consideration offered for an ASF Security – Participating ASF Securityholder viewpoint

We have assessed the fair market value of the consideration offered for an ASF Security (“**Consideration**”) from the viewpoint of a Participating ASF Securityholder at between \$1.16 and \$1.22.

This is based on the Merger Ratio, the value of New Stapled Securities on a minority interest basis and the face value of the Merger Distribution (i.e. the cash component of 14 cents).

Table 1 – Assessment of fair market value of the Consideration – Participating ASF Securityholder viewpoint

	Ref Section	Note	Low value	High value
Exchange ratio	2	A	1.86	1.86
Merger Ratio (Number of New Stapled Securities offered for each ASF Security)		B=1÷A	0.538	0.538
Value of one (1) New Stapled Security (minority basis) (\$)	11.12	C	1.90	2.00
Value of proportion of New Stapled Security for each ASF Security (minority basis) (\$)		D=BxC	1.02	1.08
Cash per each ASF Security (\$)	2	E	0.14	0.14
Total value of Consideration for each ASF Security (minority basis) (\$)		F=D+E	1.16	1.22

Source: LCF analysis

Numbers are rounded

4.6 Assessment of whether the Merger is “fair”

The assessment of fairness is as follows:

Table 2 – Participating ASF Securityholders – Assessment of whether the Merger is “fair”

	Ref	Note	Low value	High value
Value of an ASF Security (control basis) (\$)	Table 73	A	1.24	1.25
Total value of Consideration for an ASF Security (\$)	Table 2	B	1.16	1.22
Excess / (Deficiency) (\$)		C=B-A	(0.08)	(0.03)
Excess / (Deficiency) (%)		D=C÷A	(6.5)%	(2.4)%

Source: LCF analysis
Numbers are rounded

We have assessed the fair market value of an ASF Security on a control basis, to be \$1.24 to \$1.25. This compares to the assessed the fair market value of the Consideration offered per ASF Security of \$1.16 to \$1.22.

Based on the above analysis, the value of an ASF Security exceeds the value of the Consideration offered, by between 3 and 8 cents. Therefore, according to RG 111 guidelines, we conclude that the Merger is “not fair” to the Participating ASF Securityholders.

4.7 Assessment of whether the Merger is “reasonable”

As we concluded that the Merger is “not fair” to Participating ASF Securityholders according to RG 111 guidelines, we considered whether the Merger is “reasonable”. This involved an assessment of whether, in our opinion, there are sufficient reasons for Participating ASF Securityholders to accept the Merger despite it being “not fair”.

We have concluded that there are sufficient reasons for Participating ASF Securityholders to accept the Merger in the absence of any superior proposal. Therefore, in our opinion, while the Merger is “not fair”, it is “reasonable”.

A summary of the matters we considered is set out below.

4.7.1 Alternatives realistically open to Participating ASF Securityholders as a whole

In our opinion, there are no alternatives that are clearly superior to the Merger, and most are considered to be inferior. Only one alternative analysed (which assumes that ASF is liquidated and net proceeds are returned to ASF Securityholders in December 2013) indicates the possibility of superior returns (on a time and risk adjusted basis), but the ASF storage facilities properties would have to grow in value at a very high rate compared with historical experience.

We have been made aware that since announcing the Merger ASF has received a preliminary expression of interest in the ASF portfolio. The approach is incomplete, subject to the conduct of due diligence and uncertain. However, the ASF board has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the date of the Meetings. If the ASF board receives a sufficiently certain offer, which is more attractive than the Merger proposal, the impact of this and the conclusions in this Report may need to be revisited to take account of this expression of interest.

4.7.2 The financial impact of the Merger on Participating ASF Securityholders as a whole Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

On the basis that FY2012 distributions of each of ABP and ASF would not change from FY2011 distributions, analysis indicates that Participating ASF Securityholders would be better off in terms of equivalent income per ASF Security.

Net assets/net tangible assets per security

The pro forma net assets of the New Stapled Securities plus Merger Distribution (i.e. cash) received under the Merger per equivalent ASF Security currently held by Participating ASF Securityholders will increase by 15.5% and the net tangible assets will increase by 10.9%.

Gearing

The pro-forma Group Gearing¹ of ASF was 51.7% as at 30 June 2011.

If the Merger is implemented, the pro-forma Group Gearing of the Merged Group as at 30 June 2011 would be 32.7%.

Therefore, the Merged Group will be less highly geared than ASF, (each on a pro-forma basis).

4.7.3 Any other advantages and disadvantages of the Merger to Participating ASF Securityholders as a whole

Advantages

In our opinion, the Merger has a number of potential positive implications for Participating ASF Securityholders, including:

- liquidity of the listed New Stapled Securities;
- part cash Consideration;
- internalisation of management; and
- diversification of investment.

Disadvantages

In our opinion, the Merger has a number of disadvantages to Participating ASF Securityholders, including:

- Consideration is at a discount to fair market value of an ASF Security;
- increased volatility of listed New Stapled Securities; and
- exposure to non storage fund assets.

4.7.4 Implications for Participating ASF Securityholders of rejecting the Merger

In our opinion, the key implications for Participating ASF Securityholders of rejecting the Merger are as follows:

- ASF Securities will remain illiquid for some time;
- potentially slower rates of future growth of ASF; and
- externally managed investment model.

¹ Group Gearing is defined as net debt divided by total assets minus cash, excluding any impact of AASB 10.

4.8 Basis of assessment of “fair and” “reasonable”

In assessing the Merger from the viewpoint of the Participating ASF Securityholders, we considered the various Regulatory Guides issued by ASIC and in particular, RG 74 and RG 111.

RG 111.5 provides that in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the substance of the transaction, rather than the legal mechanism used to effect the transaction.

Although the Merger strictly speaking, is not a takeover offer or a scheme of arrangement, an issue of securities in ASF to ABP Securityholders will occur, such that the ownership interest in ASF of the Participating ASF Securityholders will reduce from 80.045% of ASF to approximately 8.9% of the New Stapled Securities in the Merged Group. In our view, in substance, the Merger can be regarded as a takeover offer for ASF by ABP in which ABP is offering mainly scrip consideration (its own securities) and some cash.

According to RG 111, a transaction that has the effect of a takeover offer (“**Control Transaction**”) should be analysed as a takeover offer, regardless of whether the transaction is effected by a takeover bid, a scheme of arrangement or an issue of shares.

Therefore, the analysis of the Merger from the viewpoint of Participating ASF Securityholders should proceed as if it was a takeover offer and should consider the perspective of Participating ASF Securityholders.

4.8.1 Fair and Reasonable

In the circumstances of a Control Transaction, RG 111 indicates that the words “fair” and “reasonable” establish two distinct criteria:

- is the offer “fair”; and
- is it “reasonable”?

4.8.2 Meaning of “Fair”

Under RG 111.11, an offer is “fair” if the value of the offer consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller, both acting at arm’s length.

If the “bidder” (in this case, ABP) is offering non-cash consideration in a Control Transaction, the comparison should be made between the value of the securities being offered allowing for a minority discount and the value of the securities under offer, assuming 100% of the securities are available for sale (that is, on a controlling interest basis). According to ASIC, this comparison reflects the fact that:

- the “bidder” (ABP) is obtaining or increasing control of the “target” (ASF); and
- the investors in the “target” (ASF) will be receiving scrip constituting minority interests in the combined entity (i.e. the Merged Group).

The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison.

The expert should assess whether a scrip takeover offer is in effect a merger of entities of equivalent value when control of the merged entity will be shared equally between the security holders of the bidder and the target. In such a case, the expert may be justified in using an equivalent approach to valuing the securities of the bidder and the target (RG 111.31).

However, under the Merger, in view of the large difference in size between ABP and ASF, and that Participating ASF Securityholders would acquire only 8.9% of the New Stapled Securities on issue after the Merger is implemented, we do not believe that it can be said that control of the Merged Group will be shared equally between ABP and Participating ASF Securityholders and therefore, in our opinion using an equivalent approach to valuing the securities of the bidder and the target is not appropriate.

4.8.3 Meaning of “Reasonable”

Under RG 111.12, an offer under a Control Transaction is “reasonable” if it is “fair”. It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

4.8.4 Assessment of whether the Merger is “Fair” to Participating ASF Securityholders

In determining whether the Merger is “fair” to Participating ASF Securityholders, we compared

- the fair market value of an ASF Security (on a control basis); with
- the sum of the fair market value of the 0.538 New Stapled Security (on a minority interest basis) plus 14 cents cash offered for an ASF Security (“**Consideration**”). The number of New Stapled Securities to be issued is determined by the Merger Ratio.

We assessed the fair market value of:

- an ASF Security as its pro rata share of the total value of all the ASF Securities determined on a controlling interest basis;
- a New Stapled Security on a minority interest basis as equivalent to recent market trading prices of ABP Securities; and
- the Merger Distribution (being the cash component of \$0.14 per ASF Security), at its face value.

The calculation of the value of the Consideration and assessment of fairness is as follows:

Table 3 – Participating ASF Securityholders – Assessment of whether the merger is “Fair”

	Ref	Note	Low value	High value
Value of an ASF Security (control basis) (\$)	Table 73	A	1.24	1.25
Value of Consideration				
Exchange ratio		B	1.86	1.86
Number of ABP Securities for each ASF Security (Rounded)		C=1÷B	0.538	0.538
Value of one (1) ABP Security (\$) (minority basis)		D	1.90	2.00
Value of ABP Securities for each ASF Security (\$)		E=CxD	1.02	1.08
Add:				
Cash per each ASF Security (\$)		F	0.14	0.14
Total value of Consideration for each ASF Security (\$)		G=F+E	1.16	1.22
Excess / (Deficiency) (\$)		H=G-A	(0.08)	(0.03)
Excess / (Deficiency) (%)		I=H÷A	(6.6)%	(2.4)%

Source: LCF analysis

Numbers are rounded

We have assessed the fair market value of an ASF Security on a control basis, to be \$1.24 to \$1.25. This compares to the assessed the fair market value of the Consideration offered per ASF Security of \$1.16 to \$1.22.

Based on the above analysis, the assessed fair market value of an ASF Security (on a control basis) exceeds the assessed fair market value of the Consideration offered, by between 3 and 8 cents per ASF Security. Therefore, we conclude that the Merger is “not fair” to the Participating ASF Securityholders, according to RG 111 guidelines.

4.9 Assessment of whether the Merger is “Reasonable” to Participating ASF Securityholders

As we concluded that the Merger is “not fair” to Participating ASF Securityholders, we considered whether there are sufficient reasons for Participating ASF Securityholders to accept the Merger.

This involved an assessment of:

- any alternatives realistically open to Participating ASF Securityholders as a whole;
- the financial impact of the Merger on Participating ASF Securityholders as a whole;
- any other advantages and disadvantages of the Merger to Participating ASF Securityholders as a whole; and
- the implications for Participating ASF Securityholders as a whole if the Merger does not proceed.

A summary of the matters that we have considered is set out below.

4.9.1 Alternatives available to Participating ASF Securityholders

A number of alternatives potentially available to Participating ASF Securityholders were considered, including the following:

- maintain the current arrangements;
- list ASF on the ASX;
- undertake a recapitalisation; and
- an orderly realisation of assets and return of funds to ASF Securityholders.

In summary, we note the following with regard to the above alternatives.

4.9.2 Maintain the current arrangements

Maintaining the current arrangements is a possibility in the shorter term, so long as ABP is prepared and able to maintain its debt financing of ASF. However, ASF is otherwise constrained from drawing additional bank debt funding, which means that unless additional equity is raised, ASF will not be able to grow its assets base.

In the longer term, both the current bank debt and the ABP debt financing of ASF will have to be repaid, or at least, refinanced. The bank debt is due for repayment in August 2013 and the ABP debt financing (other than the ASF AWCF that is convertible into equity) is due for repayment in September 2013. The ASF AWCF is due for repayment or conversion in December 2018.

We have concluded that this option would not create additional value for Securityholders over and above that created by the Merger.

4.9.3 List ASF on the ASX

This was analysed by LCF but was not considered attractive for Participating ASF Securityholders from both a financial and/or strategic perspective.

4.9.4 Undertake a recapitalisation

A recapitalisation would need to be of sufficient size to reduce the gearing to a level acceptable in current market conditions. We estimate that this would equate to a gearing (net debt/assets less cash) of between 25% and 30%. In our view, in the current market conditions in order to ensure sufficient demand for such a raising, ASF would need to offer the securities at a substantial discount to the NTA per security and one greater than implied under the Merger.

The majority of recent equity raisings in the listed property sector have occurred at prices below the last trading prices and at large discounts to NTA per security. A capital raising of this size is likely to result in a material dilution to existing security holders. Such a capital raising will reduce the gearing to a more sustainable level but will not necessarily provide additional capital to fund growth.

4.9.5 Orderly realisation of assets

Under this scenario ASF would undertake an orderly realisation of all its assets over time and return the net proceeds (after costs) to ASF Securityholders. This approach was not considered attractive as it did not create additional value for Participating ASF Securityholders over and above that created by the Merger due to the significant costs likely to be incurred and the potential time period this option may take to complete and consequent exposure to pricing risk.

4.9.6 The financial impact of the Merger on Participating ASF Securityholders

Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

On the basis that FY2012 distributions of each of ABP and ASF would not change from FY2011 distributions, the following analysis indicates that Participating ASF Securityholders would be better off in terms of equivalent income per ASF Security:

Table 4 – Change in equivalent distributions per ASF Security, based on FY2011 distributions

FY2011 distributions per security (cents)	Note	cents	cents	cents
ABP	A	16.5		
ASF	B	8.75		
Effect of Merger per one ASF Security - based on FY2011 distributions (cents)				
Exchange ratio: ASF Securities per ABP Security	C	1.86		
No. ABP Securities for each ASF Security (rounded)	$D=1\div C$	0.538		
ABP equivalent distribution	$E=D\times A$	8.88		
Cash component per ASF Security				
Add: interest income on investment of cash component of Consideration @ % pa		4%	5%	6%
	F	0.56	0.70	0.84
Total income after Merger	$G=E+F$	9.44	9.58	9.72
Difference	$H=G-B$	0.7	0.8	1.0
	$I=H\div B$	7.9%	9.1%	11.4%

Source: LCF analysis

Numbers are rounded

While ABP distributions are projected by various analysts to increase in FY2012 over FY2011 (refer Section 11.7.4), it is likely that growth in distributions per ASF Security will be constrained (refer Section 18.4.2).

ASF pays distributions quarterly, while ABP pays 6 monthly, so if the Merger proceeds, there may be a slight disadvantage for Participating ASF Securityholders in terms of timing of receipt of distributions.

Net assets/net tangible assets per security

As at 30 June 2011 the consolidated net assets/net tangible assets per ASF Security were \$1.295 (after adjusting only for the assumed conversion of the ASF AWCF (refer Section 12.9.5)).

If the Merger is implemented, the pro-forma consolidated net assets/net tangible assets, as at 30 June 2011, per New Stapled Security would be \$2.51/\$2.39, respectively (refer Table 36).

The net assets/net tangible assets on a per equivalent ASF Security basis, are calculated as set out in the table below.

Table 5 – Net assets/net tangible assets per security

As at 30-Jun-11 \$ per security	Ref	Net assets	Net tangible assets
ASF Pro-forma (assuming conversion of ASF AWCF)	A	1.29	1.29
Merged Group Pro-forma	B	2.51	2.39
Net assets/net tangible assets per equivalent ASF Security			
- Exchange ratio	C	1.86	1.86
- No. ABP Securities for each ASF Security (rounded)	$D=1 \div C$	0.538	0.538
- Cash per each ASF Security	E	0.14	0.14
Net assets/net tangible assets per equivalent ASF Security - including cash	$F=E+(D \times B)$	1.49	1.43
Increase/ (decrease) in equivalent NA/NTA per ASF Security (\$) - including cash	$G=F-A$	0.20	0.14
Increase/ (decrease) in equivalent NA/NTA per ASF Security (%) - including cash	$H=G \div A$	15.5%	10.9%

Source: FY2011 Annual Reports of ABP & ASF; Explanatory Memorandum; LCF analysis.

Numbers are rounded

The pro forma net assets of the New Stapled Securities under AASB 10 and AASB 11 (refer Section 11.10) plus Merger Distribution (i.e. cash) received under the Merger per equivalent ASF Security currently held by Participating ASF Securityholders will increase by 15.5% and the net tangible assets will increase by 10.9%.

Gearing

As at 30 June 2011 the pro-forma Group Gearing of ASF was 51.7%.

If the Merger is implemented, the pro-forma Group Gearing of the Merged Group as at 30 June 2011 would be 32.7%.

Therefore, the Merged Group will be less highly geared than ASF, (each on a pro-forma basis).

4.9.7 Advantages and disadvantages of the Merger for Participating ASF Securityholders

We have also considered the following advantages and disadvantages of the Merger from the perspective of the Participating ASF Securityholders.

Advantages

In our opinion, the Merger has a number of potential positive implications for Participating ASF Securityholders, including:

- liquidity: Participating ASF Securityholders will obtain listed New Stapled Securities, which are considered to be liquid, and therefore obtain the opportunity to realise their investment, should they wish to do so, at an earlier time than is likely to be the case if they retain their present investment in ASF;
- part cash consideration: the Consideration offered includes a cash component, (the Merger Distribution, which includes a franking credit) which is a partial realisation of the ASF investment, without any transaction costs;
- internalisation of management: the Merger effects an internalisation of ASF management that is currently undertaken by ABP. The major benefit of such an internalisation would be the elimination of any potential for conflicts of interest and fee leakage from Participating ASF Securityholders to ABP);
- Storage King remains in place as the self storage facilities manager; and

- diversification: an investment in New Stapled Securities provides Participating ASF Securityholders with greater investment diversification.

Disadvantages

Set out below is a summary of the key disadvantages arising from implementing the Merger that relate to Participating ASF Securityholders:

- discount to fair market value: The Consideration is at a discount to the assessed fair market value of an ASF Security on a controlling interest basis;
- increased volatility: One of the attractions to investors of unlisted property investment vehicles is the lack of volatility (perceived or real) in the value of the securities. New Stapled Securities listed on the ASX are likely to experience greater price volatility than ASF Securities; and
- exposure to non storage fund assets: an investment in the Merged Group gives rise to exposure to assets that Participating ASF Securityholders may not like or are outside of their investment profile.

4.10 Kirsh Proposal

The increase in the Kirsh Group security holding relates to ASF (and not to ABP) and will be voted upon by Non-associated ASF Securityholders (defined as ASF Securityholders, other than the Kirsh Group and its associates, if they hold any ASF Securities). ABP Securityholders will not vote on the resolutions relating to the Kirsh Proposal.

The approval sought from Non-associated ASF Securityholders under the Kirsh Proposal is that the Kirsh Group be allowed to increase their relevant interest in ASF up to 42.207% in the six month period following the Merger.

It is noted that all the resolutions to be voted upon by Non-associated ASF Securityholders are conditional on all the other ASF resolutions being approved. Therefore, if the Kirsh Proposal resolutions are not passed, then the Merger will not be approved. Refer Sections 6 and 19 for discussion of this aspect.

4.11 Implications for Participating ASF Securityholders of rejecting the Merger

Set out below are the key implications for Participating ASF Securityholders of rejecting the Merger. In our opinion, in the event the Merger was rejected, Participating ASF Securityholders would be subject to the following issues:

- ASF Securities will remain illiquid: At least until a decision is made as to the future of ASF at a meeting of ASF Securityholders that is likely to be held during 2013, ASF Securities will remain illiquid. Depending upon market conditions at the time and the results of the meeting, it is possible that the ASF Securities will remain illiquid for some time beyond the meeting date;
- potentially slower rates of future growth: Given the relatively high gearing of ASF, and in the current investment climate, the expected continued difficulty in raising equity capital at values approaching NTA, ASF is unlikely to be able to grow its assets materially by acquiring additional storage facility assets. Given the large asset acquisitions recently made by the joint venture between National Storage and Heitman and the stated desire to grow the portfolio by more acquisitions, any inability of ASF to acquire further assets may see it become a diminished market participant, which may adversely affect ASF's ability to access in the future debt and/or capital at more attractive rates; and
- externally managed investment model: the continuation of an externally managed investment model, which results in fees being paid to the external manager.

We have considered whether the Merger is “reasonable”, despite being “not fair” according to RG 111 guidelines and have concluded that there are sufficient reasons for Participating ASF Securityholders to accept the Merger in the absence of a superior proposal. Therefore, in our opinion, while the Merger is “not fair”, it is “reasonable”, in the absence of a superior proposal.

4.12 Assessment of whether the Merger is “in the best interest” of Participating ASF Securityholders

RG 111 indicates that in ASIC’s view, if a proposal is:

- “fair” and “reasonable” – it is “in the best interest” of the relevant security holders;
- “not fair” but is “reasonable” - it is “in the best interest” of the relevant security holders; or
- neither “fair” nor “reasonable” - it is likely to be “not in the best interest” of the relevant security holders.

As we have concluded that the Merger is “not fair” but is “reasonable”, then, on the basis of the RG 111 approach, it is “in the best interest” of the Participating ASF Securityholders.

5 Assessment of Merger for ABP Securityholders

5.1 Summary of conclusions

In summary, our opinion is that the Merger is “fair”, and therefore is “reasonable” to, and “in the best interest” of, ABP Securityholders, as a whole, in the absence of a superior proposal.

5.2 Basis of assessment

In assessing the Merger from the viewpoint of the ABP Securityholders, we were requested to apply the same tests of whether the Merger is “fair” and “reasonable” and “in the best interest” of ABP Securityholders as apply in respect of the assessment in regards to Participating ASF Securityholders.

We note that the Merger cannot result in a Control Transaction in respect of the Merged Group, as only 8.9% of the New Stapled Securities will be issued to Participating ASF Securityholders and existing ABP Securityholders will retain approximately 91.1% of the New Stapled Securities in the Merged Group. In the context of a Control Transaction it is unusual for the security holders in the “bidder” (i.e. ABP) to be asked to approve a takeover offer, unless the consideration comprises the issue of scrip in the “bidder” such that a person will exceed either the 20% takeover or 3% in 6 months “creep” thresholds. This is not the case in respect of ABP under the Merger.

In analysing whether the Merger is “fair” to ABP Securityholders we have compared the fair market value (on a minority basis) of ABP Securities before the Merger and New Stapled Securities after the Merger. If the Merger is assessed to be “not fair” on that basis, assessing whether the merger is “reasonable” will depend upon whether we are of the opinion that sufficient reasons exist for ABP Securityholders to accept the Merger.

The assessment of “in the best interest” has been determined on the basis set out in RG 111 (i.e. that if the Merger is assessed to be “fair” or “not fair” but “reasonable”, then it is “in the best interest” of ABP Securityholders).

5.3 Assessment

5.3.1 Fair

In our opinion, the fair market value of an ABP Security on a minority basis before the Merger is best represented by the ASX market trading price. The trading in ABP Securities has been analysed in Section 11.12. We have concluded that the fair market value of an ABP Security on a minority basis before the Merger is between \$1.90 and \$2.00. This is based on recent market trading on the ASX, calculated on a volume-weighted average basis (refer Section 11.12).

In our opinion, the fair market value of a New Stapled Security on a minority basis after the Merger will be equivalent to the assessed fair market value of an ABP Security on a minority basis before the Merger (refer Sections 14.2 and 15.3).

Obviously, many factors may affect the trading price of an ABP Security and a New Stapled Security. However, in our opinion, the Merger, of itself, should not adversely affect the ASX market trading price of New Stapled Securities.

On the basis of the above analysis, as we have concluded that the value of a New Stapled Security (on a minority basis) after the Merger will be equivalent to the assessed fair market value of an ABP Security (on a minority basis) before the Merger, we are of the opinion that the Merger is “fair” to ABP Securityholders, in the absence of a superior proposal.

5.3.2 Reasonable

As we have concluded that the Merger is “fair” to ABP Securityholders, in the absence of a superior proposal, under ASIC RG 111 guidelines, the Merger is considered to be “reasonable” to the ABP Securityholders.

5.4 In the best interest

As discussed previously, RG 111 indicates that in ASIC’s view, if a proposal is:

- “fair” and “reasonable” – it is “in the best interest” of the relevant security holders;
- “not fair” but is “reasonable” - it is “in the best interest” of the relevant security holders; or
- neither “fair” nor “reasonable” - it is likely to be “not in the best interest” of the relevant security holders.

As we have concluded that the Merger is “fair” and “reasonable”, under ASIC RG 111 guidelines, the Merger is considered to be “in the best interest” of ABP Securityholders.

5.5 Value of an ABP Security

We have assessed the fair market value of an ABP Security on two bases:

- a minority interest basis – at between \$1.90 and \$2.00. This is based on recent market trading on the ASX, calculated on a volume-weighted average basis; and
- on a control basis, at between \$2.43 and \$2.55. This value is based on the net assets/net tangible assets of ABP as disclosed in the audited financial statements of ABP as at 30 June 2011, after various adjustments, including adding the value of other net assets that are not reflected in the assessment of net assets/net tangible assets of ABP as disclosed in the audited financial statements. The valuation assessment is explained in the body of this report (refer Section 15)).

The minority interest basis value is used to assess the fairness of the Merger from the viewpoint of Participating ASF Securityholders, Non-associated ASF Securityholders and ABP Securityholders, in accordance with RG 111 and ASIC’s views.

The control basis value is compared with the ASX market trading prices of ABP Securities (i.e. the minority interest value) before the Merger as part of the assessment of the likely market trading price of New Stapled Securities (i.e. the minority interest value) following the Merger (refer Section 15.3).

5.6 Value of a New Stapled Security

We have assessed the fair market value of a New Stapled Security as being equivalent to the assessed fair market value of an ABP Security on both a control and minority interest basis (refer Section 15.3).

5.7 Assessment of other aspects of the Merger for ABP Securityholders

As we concluded that the Merger is “fair” to ABP Securityholders, according to RG 111 guidelines, it is also considered to be “reasonable”.

However, for completeness, we have also considered a number of other aspects of the Merger for ABP Securityholders, including:

- the fair market value of the consideration offered for an ASF Security - from the perspective of ABP Securityholders;
- the financial impact of the Merger on ABP Securityholders as a whole;

- any other advantages and disadvantages of the Merger to ABP Securityholders as a whole; and
- the implications for ABP Securityholders as a whole if the Merger does not proceed.

A summary of the matters that we have considered is set out below.

5.7.1 Value of consideration offered for an ASF Security - from the perspective of ABP Securityholders

We have assessed the fair market value of the consideration being offered by ABP Securityholders for an ASF Security at between \$1.16 and \$1.22 (refer Table 6). This is based on the Merger Ratio, the assessed fair market value of a New Stapled Security on a minority basis (of between \$1.90 and \$2.00) and the face value of the Merger Distribution (i.e. the cash component of 14 cents). We have assessed the fair market value of a New Stapled Security on a minority basis to be equivalent to that of an ABP Security on a minority basis, at between \$1.90 and \$2.00.

We have assessed the fair market value of an ASF Security being acquired as between \$1.24 and \$1.25 on a control basis.

The value of the consideration being offered by ABP Securityholders (\$1.16 - \$1.22) (using the minority value of an ABP Security) is less than the value of an ASF Security acquired (on a control basis) (\$1.25 - \$1.24) (refer Table 6).

Table 6 – ABP Securityholders – Assessment of consideration offered for an ASF Security

	Ref	Note	Low	High
			\$/Security	\$/Security
Assessed fair market value of a New Stapled Security (minority basis)	Sections 15.2 & 15.3	A	1.90	2.00
Merger Ratio (New Stapled Security per ASF Security)		B	0.538	0.538
Value of proportion of New Stapled Security per ASF Security		C=AxB	1.02	1.08
Cash component of the Offer per ASF Security		D	0.14	0.14
Fair market value of consideration per ASF Security - ABP Securityholders perspective		E=C+D	1.16	1.22
Assessed fair market value of an ASF Security (control basis)		F	1.24	1.25
Value of consideration exceeds/ (is less than) value of an ASF Security		G=E-F	(0.08)	(0.03)
		H=G/F	(6.5)%	(2.4)%

Source: LCF analysis

Numbers are rounded

5.7.2 The financial impact of the Merger on ABP Securityholders as a whole

Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last financial year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

Gearing

The Group Gearing of ABP increases under the Merger from 26.7% as at 30 June 2011 to 32.7% following the Merger (both on a pro forma basis). The gearing for bank purposes (i.e. Covenant Gearing), also increases, (from 31.6% to 37.6%). However, it remains within current 50% gearing banking covenants.

Net asset and net tangible asset backing

The pro forma net asset backing and net tangible asset backing per New Stapled Security decrease by \$0.03 and \$0.02 per security, respectively, from the position of an ABP Security before the Merger (ignoring the effect of AASB 10). This occurs mainly as a result of the distribution of cash to Participating ASF Securityholders and transaction fees associated with the Merger.

We note in this regard that under Australian accounting standards, any transaction costs associated with acquiring real property, such as State transactions duty and legal and other costs, are generally speaking, expensed and not added to the accounting carrying value of the real estate, which is usually determined with reference to its valuation (unless the valuation supports the capitalisation of transaction costs). Accordingly, any acquisition of real estate assets could be expected usually to lead to a reduction in the accounting-determined net assets and net tangible assets of the acquirer.

Negative impact on underlying earnings per security ("EPS")

The pro forma underlying earnings per New Stapled Security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2%, in part as a result of the U Stow It Holdings Limited ("**USI**") self storage assets being held by a company. This is not expected to impact distributions.

5.7.3 Any other advantages and disadvantages of the Merger to ABP Securityholders as a whole

Advantages

Raising capital at net tangible asset value

ABP will issue approximately 37.6 million ABP Securities representing approximately 8.9% of the New Stapled Securities of the Merged Group at an effective issue price of \$2.41 per security, being the pro-forma net tangible asset backing of ABP at 30 June 2011.

Although less than our assessed range of fair market value of a New Stapled Security (of between \$2.43 and \$2.55), the value of \$2.41 compares favourably with recent VWAP market trading prices of ABP Securities in the range of \$1.90 to \$2.00.

Listed Australian real estate investment vehicles ("**A-REIT**")s undertaking equity issues in the last 12 to 18 months have generally done so at considerable discounts to their respective NTAs (refer Table 78). If ABP were to raise capital in the market to buy ASF for cash, it would most likely have to do so at a price less than recent VWAP market trading prices, which would represent a significant discount to the pro-forma net tangible asset backing of ABP at 30 June 2011.

Portfolio diversification

ABP Securityholders will acquire a direct interest in one of Australia's largest portfolios of self-storage assets, which will increase the Merged Group's direct property assets as a proportion of total assets from approximately 60% pre-Merger to approximately 70% post Merger (on a pro forma basis) (refer columns B and C in Table 7). The increases in direct property asset percentages in columns D and E in Table 7 are the result of consolidation adjustments under AASB 10 & AASB 11.

Table 7 - ABP Securityholders - Portfolio diversification

As at 30 June 2011	A	B	C	D	E
\$'000	ABP Statutory Actual	ABP Statutory Pro-forma	ABP and ASF Total Directly Owned Properties after Merger Pro-forma	ABP AASB 10 (excluding ASF) Pro-forma	Merged Group AASB 10 Pro-forma
Total assets	1,601,622	1,587,556	1,856,254	1,794,959	2,063,658
Property, plant and equipment	19,325	19,325	20,135	162,412	163,222
Inventory (Lewisham & Camellia)	45,989	45,989	45,989	45,989	45,989
Investment properties	844,258	844,258	1,175,391	1,098,128	1,429,261
Other property assets (Note 1)	61,574	61,574	61,574	61,574	61,574
Total Direct Property Assets	971,146	971,146	1,303,089	1,368,103	1,700,046
Direct Property Assets as % of Total assets	61%	61%	70%	76%	82%

Source: ABP

"AASB 10": Denotes application of AASB 10 and AASB 11.

Note 1: Comprises ABP's direct interests in investment properties held through other entities being Virginia Park 232-262 East Boundary Road East Bentleigh VIC (50%), 350 George Street Sydney NSW (50%) and 32 Walker Street North Sydney NSW (25%).

Recurring income stream

ABP Securityholders will acquire access to the underlying cash flows of the storage assets that have proved stable in varying economic conditions, including during the recent global financial crisis ("GFC") and subsequently.

The total Rental and Storage income of the Merged Group's pro forma FY2011 income would increase from approximately 37% pre-Merger to approximately 47% post-Merger, adding significantly to ABP's recurring income profile.

Transaction costs

ABP will pay approximately \$10.9 million in cash (Merger Distribution and transaction costs) that is less in total than the notional duty cost had the transaction proceeded by way of a sale to ABP of the ASF storage assets portfolio.

The Merger is expected to provide the following advantages to ABP Securityholders:

- ABP will gain access to the cash flows arising from ASF to assist in funding its operations and future distributions;
- the ownership structure of the wider ABP group will be simplified and this should assist in an improved understanding of the Merged Group by the market, which should assist in improving the value of a New Stapled Security on the market; and
- expansion of the Merged Group Securityholder base has the potential for increased liquidity of New Stapled Securities.

Overall, successfully addressing issues relating to the funds management activities may lead to a re-rating of ABP/New Stapled Securities trading prices. However, in this Report we do not rely on such a rerating occurring as a result of the Merger. Also, it may be the case that any positive rerating would be delayed until other aspects of the ABP funds management activities are successfully resolved.

Disadvantages

Disadvantages of the Merger include the previously mentioned increase in gearing, reduction in net asset and net tangible asset backing per security and the negligible negative impact on pro forma FY2011 EPS.

5.7.4 Relative contributions of balance sheet net assets

The relative contributions of balance sheet net assets of ASF Securityholders and ABP Securityholders to the Merged Group are similar to the Merger Ratio, as set out in the table below:

Table 8 - Relative contributions of balance sheet net assets

As at 30 June 2011	Note	Net assets \$'000	% Merged Group after adjustments (based on net assets) %	% based on Merger Ratio %
ABP Starting net assets (AASB 10 Pro forma – excluding ASF)		1,025,974		
Merger /consolidation adjustments		(23,904)		
Contribution to Merged Group	A	1,002,070	90.5%	91.1%
ASF Starting net assets		115,518		
Less: cash distributed to Participating ASF Securityholders		(9,780)		
Contribution to Merged Group	B	105,738	9.5%	8.9%
Merged Group net assets (AASB 10 Pro forma)	C=A+B	1,107,808	100.0%	100.0%

Source: Explanatory Memorandum; LCF analysis.

“AASB 10”: Denotes application of AASB 10 and AASB 11.

ABP Securityholders will contribute 90.5% of the Merged Group net assets and receive 91.1% of the New Stapled Securities.

5.7.5 Taxation

The Explanatory Memorandum sets out the general Australian taxation impacts of the Merger on ABP and Participating ASF Securityholders.

In summary there should be no immediate capital gains or income tax implications as a consequence of the Merger, but the cost base of securities will be affected. ABP and Participating ASF Securityholders should seek their own taxation advice in relation to the impact of the Merger on their individual positions.

5.8 Implications for ABP Securityholders of rejecting the Merger

In our opinion, in the event the Merger is rejected, ABP Securityholders would be subject to the following issues:

- resolving the strategic direction of the ABP funds management operations is seen as an issue that must be addressed by ABP management. If the Merger is rejected, there may be an increased risk that ABP Securities will remain priced in trading on the ASX at a large discount to NTA; and
- reduced scale of operations;
- a lost opportunity to acquire a portfolio of assets with attractive investment characteristics.

5.9 Assessment of whether the Merger is “in the best interest” of ABP Securityholders

As the Merger is considered to be “not fair” but “reasonable” it is, therefore, “in the best interest” of ABP Securityholders, pursuant to RG 111 guidelines.

6 Assessment of Kirsh Proposal

6.1 Basis of Assessment of Kirsh Proposal

As all the ASF resolutions are conditional on all the other ASF resolutions being approved, if the Kirsh Proposal resolutions are not approved, then the Merger will not proceed. On that basis, separately assessing the Kirsh Proposal as a stand-alone proposal is not necessarily appropriate.

However, we have considered the Kirsh Proposal as a stand-alone proposal in order to highlight the relevant considerations arising in regard to it.

6.1.1 Fair and Reasonable

As discussed previously, in the circumstances of a Control Transaction, RG 111 indicates that the words “fair” and “reasonable” establish two distinct criteria:

- is the offer “fair”; and
- is it “reasonable”?

Fair

Under RG 111.11, an offer is “fair” to “target” security holders if the value of the offer consideration is equal to or greater than the value of the “target” securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

In considering whether this aspect of the Merger is “fair” and “reasonable” and “in the best interest” of Non-associated ASF Securityholders we compared the fair market value of an ASF Security (determined as its pro rata share of the total value of all the ASF Securities on a control basis) with the sum of the fair market value of the Consideration offered for the ASF Security being:

- the face value of the cash component of \$0.14 per ASF Security; and
- the fair market value of the 0.538 New Stapled Securities (determined by the Merger Ratio) (on a minority basis).

This is the same test as applied in regard to determining the fairness of the Merger to Participating ASF Securityholders.

Reasonable

In the event that we considered this aspect of the Merger to be “not fair”, we considered whether there are sufficient reasons for Non-associated ASF Securityholders to accept this aspect of the Merger.

This involved an assessment of:

- the fact that the Merger proceeding at all is conditional upon the approval of the increase in the Kirsh Group security holding in ASF from the current 19.955% to 42.207%; and
- the other factors considered in determining whether the Merger is “reasonable” to Participating ASF Securityholders as a whole;

6.1.2 In the best interest

RG 111 indicates that in ASIC's view, if a proposal is:

- fair and reasonable – it is in the best interest of the relevant security holders;
- not fair but reasonable - it is in the best interest of the relevant security holders; or
- neither fair nor reasonable - it is likely to be not in the best interest of the relevant security holders.

6.2 Increasing the Kirsh Group relevant interest in ASF

6.2.1 Fair

In our opinion, the increase in the Kirsh Group's relevant interest in ASF as a result of implementing the Merger is not fair to the Non-associated ASF Securityholders as the assessed fair market value of an ASF Security on a control basis of \$1.24 to \$1.25 exceeds the assessed the fair market value of the Consideration offered for the ASF Securities of \$1.16 to \$1.22.

With respect to the Kirsh Group increasing their relevant interest in ASF in the six months immediately following the Merger, the price that the Kirsh Group will pay for any additional New Stapled Securities is, at the date of this Report, unknown. However, in our opinion, if any acquisitions are made on-market, it is likely that they will be at a price reflecting a minority interest and therefore, the price will be less than the fair market value of ASF Securities (as a component of New Stapled Securities) on a controlling basis. If this is the case, in our opinion, this aspect of the Kirsh Proposal is likely to be not fair to the Non-associated ASF Securityholders.

However, in our opinion, it is not prudent or reasonable to speculate as to what price the Kirsh Group may or may not pay for New Stapled Securities, if any, in the six months following the Merger. Accordingly, it is not possible to give an opinion on the fairness of any such hypothetical transaction.

6.2.2 Reasonable

In our opinion the increase in the Kirsh Group's relevant interest in ASF as a result of implementing the Merger and any increase in the Kirsh Group's relevant interest in ASF Securities to 42.207% (via acquisition of an additional interest in New Stapled Securities of 6.472% from its diluted position of 35.735% immediately after the Merger) in the six months following the implementation of Merger, is reasonable to the Non-associated ASF Securityholders, in the absence of a superior proposal, for the following reasons:

- without the approval of the relevant resolutions, the Merger will not proceed;
- even if the Merger could hypothetically proceed without the approval of the relevant resolutions, the Kirsh Group would be able to increase their relevant interest in ASF Securities (via an acquisition of New Stapled Securities) after the expiration of the six month period following the Merger by 3% in each of the following two periods of six months. Accordingly, the approval represents bringing forward that hypothetical opportunity by approximately twelve (12) months; and

- Kirsh Group has been on-market acquirers of ABP securities since at least January 2009 and have, as such, provided additional depth and liquidity to the market for ABP Securities. Granting the approval may result in the Kirsh Group providing additional depth and liquidity to the market for New Stapled Securities in the six months following the implementation of the Merger. This is balanced against the possibility that as the Kirsh Group's interest in the Merged Group increases over time, the free-float of New Stapled Securities will reduce which may possibly adversely impact on the depth of the market for New Stapled Securities.

6.2.3 In the best interest

As the Kirsh Proposal is considered to be "not fair" but "reasonable" it is, therefore, "in the best interest" of Non-associated ASF Securityholders, pursuant to RG 111 guidelines.

7 Other matters

7.1 Summary

This section sets out a summary of our conclusions. You should read our full Report, which accompanies the Documents, which sets out in full the purpose, scope, basis of evaluation, sources of information, limitations, analysis and our findings.

7.2 Scope

The scope of the procedures undertaken in preparing this Report does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards.

7.3 Securityholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. LCF has not considered the effect of the Merger on the particular circumstances of individual Securityholders. Some individual Securityholders may place a different emphasis on various aspects of the Merger from that adopted in this Report. Accordingly, individual Securityholders may reach different conclusions as to whether or not the Merger is fair and reasonable in their individual circumstances. As the decision of individual Securityholders in relation to the Merger may be influenced by their particular circumstances (including their taxation position), Securityholders are advised to seek their own independent advice.

7.4 Fair market value

For the purposes of our opinion, the term "fair market value" is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

We have assessed the fair market value of an ABP Security on two bases:

- on a control basis; and
- a minority interest basis.

The minority interest basis value is used to assess the fairness of the Merger from the viewpoint of Participating ASF Securityholders and ABP Securityholders, in accordance with RG 111 and ASIC's views.

The control basis value is compared with the ASX market trading prices of ABP Securities as part of the assessment of the likely market trading price of New Stapled Securities following the Merger (refer Section 15.3).

We have assessed the fair market value of an ASF Security on a control basis.

7.5 Special value

We have not considered special value in forming our opinion as to whether the Merger is “fair”. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the particular potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

7.6 Valuation Date

The assessment and valuation opinion is as at 31 October 2011 (“**Valuation Date**”). However, we have undertaken a high level review of matters relating ABP’s share price since that date and we are satisfied that no adjustment is required to the conclusions reached in this Report.

7.7 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. LCF reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to LCF.

7.8 Sources of Information

Appendix 1 identifies the information referred to, and relied upon by LCF during the course of preparing this Report and forming our opinion.

The statements and opinions contained in this report are given in good faith and are based upon LCF’s consideration and assessment of information provided by the Directors, executives and management of ABP and ASF.

7.9 Use of Report

This report has been prepared at the request of and for the benefit of the Directors of ABP and ASF and for the benefit of the Non-associated Securityholders. The Report was not prepared for any purpose other than that stated in this Report.

LCF does not accept any responsibility to any person other than the Directors of ABP and ASF and Non-associated Securityholders or for the use of this Report outside the stated purpose without the written consent of LCF. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

7.10 Other

This Report was prepared in accordance with APES 225 Valuation Services issued by the Accounting professional & Ethical Standards Board Limited.

Capitalised and abbreviated terms used in this Report have the meanings set out in the Glossary in **Appendix 2**.

7.11 Consent

LCF has provided its consent to this Report accompanying the Documents. Apart from this Report, LCF is not responsible for the contents of the Documents, or any other document or announcement associated with the Merger. LCF acknowledges that its Report may be lodged with regulatory bodies.

7.12 Financial Services Guide

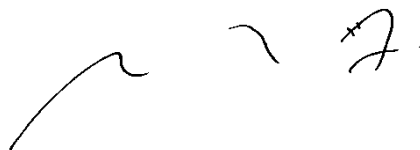
A financial services guide is attached to this Report.

Approval or rejection of the Merger is a matter for individual Securityholders based on their expectations as to the value and future prospects of ABP and ASF, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Securityholders should carefully consider the Documents. Securityholders who are in doubt as to the action they should take in relation to the Merger should consult their professional adviser.

Yours faithfully



Peter Cornell
Director



Vince Fayad
Director

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8 Merger

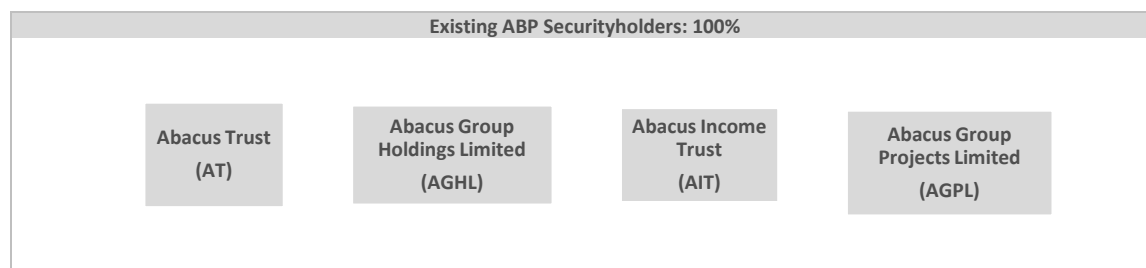
ABP is a listed diversified A-REIT comprising AGHL, AT, AGPL and AIT with three core businesses:

- Direct Property Investments;
- Funds Management and Wholesale Third Party Capital Alliances; and
- Property Ventures.

ASF is an unlisted property fund comprising ASPT and ASOL that owns and operates a portfolio of storage properties and businesses in Australia and New Zealand.

It is proposed that ABP and ASF merge by way of stapling their respective securities.

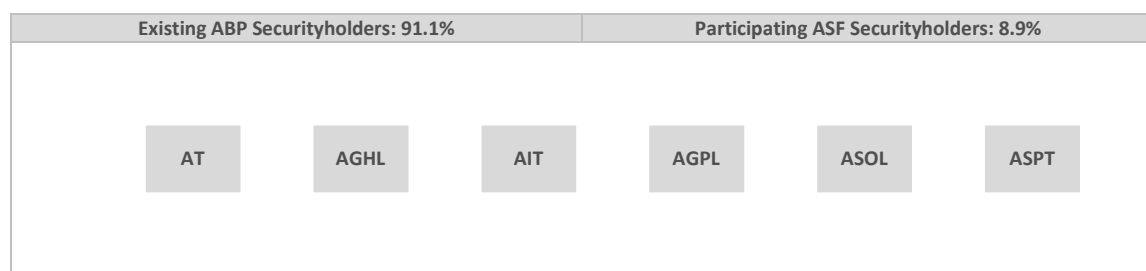
Before the Merger ABP comprises:



Before the Merger ASF comprises:



After the Merger, the Merged Group will comprise:



The Merger will result in ABP Securities being stapled to ASF Securities, and ASF and ABP will then operate as a combined group.

The Merger will result in a common investor base in each of ABP and ASF by stapling ABP securities to ASF securities to form New Stapled Securities.

The Merger will be achieved by implementing a number of steps that are described in detail in the Explanatory Memorandum.

ABP Securities and the Restructured ASF Securities (as defined in the Explanatory Memorandum) will be stapled together to form the New Stapled Securities, and jointly quoted on the ASX under the code ABP.

Participating ASF Securityholders will receive the Merger Distribution of \$0.14 per ASF Security held on the Stapling Record Date. The Merger Distribution will only be paid if the Merger proceeds.

For Participating ASF Securityholders the Merger comprises, for each ASF Security currently held:

- a scrip component of 0.538 ABP Security; and
- a cash component of 14 cents via a Merger Distribution.

ABP Securityholders will gain exposure to the ASF storage asset portfolio by issuing approximately 37.6 million new ABP Securities to Participating ASF Securityholders at net tangible asset value and using approximately \$10.9 million cash, with \$9.8 million applied to make the Merger Distribution to Participating ASF Securityholders of 14 cents and approximately \$1.1 million used for transaction costs.

Participating ASF Securityholders will gain exposure to the ABP asset portfolio by issuing approximately 377.4 million new ASF Securities to ABP Securityholders at net tangible asset value and will receive the Merger Distribution.

Foreign Securityholders will not receive securities in connection with the Merger, but will instead have their entitlements sold through a Sale Facility (described in the Explanatory Memorandum).

The Merger Ratio has been determined by the ABP Board and the ASFML Board and reflects the relative pro forma net tangible asset values as at 30 June 2011 per security which ABP Securityholders and ASF Securityholders will contribute to the Merged Group, as follows:

Table 9 - Merger Ratio

Investor	Merger Ratio	Number of New Stapled Securities per 1,000 existing ASF or ABP Securities
ABP Securityholders	1.00	1,000
Participating ASF Securityholders	0.538	538

Source: ABP

If the Merger is approved:

- ABP and ASF Securityholders will be entitled to receive their normal distributions for the period to 31 December 2011;
- Participating ASF Securityholders will not receive any accrued distribution for ASF post 31 December 2011. However, they will receive their full proportionate entitlement as holders of New Stapled Securities in the Merged Group in respect of the six months period from 1 January 2012 to 30 June 2012 for New Stapled Securities they receive under the Merger;
- ABP Securityholders will be entitled to receive their normal distributions for the period after 31 December 2011; and
- the Merger Distribution will be paid on the Implementation Date (as defined in the Explanatory Memorandum).

If the Merger is not approved then there will be no Merger Distribution and the respective distribution and other entitlements of ABP and ASF Securityholders will remain as they are currently.

Various regulatory approvals will be required for the Merger to proceed and ABP will attempt to obtain these prior to the date of the ABP and ASF Securityholder meetings called to consider the Merger. However, it is not possible to predict when the approval of the New Zealand Overseas Investment Office will be obtained.

9 Scope and Limitations

9.1 Purpose of this Report

This Report has been prepared by LCF to assist Directors in making their recommendation to the ABP Securityholders, the Participating ASF Securityholders and the Non-associated ASF Securityholders and to assist those Securityholders in their considerations of whether or not to vote to approve the Merger, and in the case of Non-associated ASF Securityholders, in relation to the Kirsh Proposal.

This Report is intended to accompany the Documents to be provided by the Directors to the ABP Securityholders, the Participating ASF Securityholders and the Non-associated ASF Securityholders.

This Report should not be used for any other purposes or by any other party. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

9.2 Scope

The scope of the procedures we undertook in forming our opinions was limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute a review, audit or other assurance engagement in accordance with Australian Auditing and Assurance Standards.

The assessment of whether the Merger is fair and reasonable necessarily involves determining the "fair market value" of various securities, assets and interests.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. There is therefore no indisputable value, and we normally express our opinion as falling within a likely range.

9.3 Limitations

9.3.1 Reliance on Information

This Report is based upon financial and other information provided by ABP. LCF has considered and relied upon this information. LCF believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, inquiry and review for the purpose of forming our opinion. The procedures adopted by LCF in forming our opinion may have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we do not express an audit or review opinion.

It was not LCF's role to undertake, and LCF has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Merger. LCF understands that the Directors have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary. LCF does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/ or completeness of any due diligence or other similar investigative activities by the Directors and/or their advisors.

An opinion as to whether a corporate transaction is “fair”, “reasonable” or “in the best interest” is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that LCF advises that it is not in a position, nor is it practical for LCF, to undertake such an extensive verification exercise.

It is understood that, except where noted, the accounting information provided to LCF was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by ABP in previous accounting periods.

In accordance with normal practice, prior to finalising this Report, we confirmed facts with the client. This was undertaken by means of providing the client with a draft report. LCF obtained a representation letter from the client confirming that, to the best knowledge of the client, the information provided to, and relied upon by, LCF was complete and accurate, and that no significant information essential to this Report was withheld.

The client indemnified LCF and Lawler Partners and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to LCF by the client, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

9.3.2 Assumptions

In forming our opinion, we made certain assumptions, including, to the extent that there is no material impact upon our analysis or opinion:

- other than as publicly disclosed, all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts are in good standing, and will remain so and there is no alleged or actual material breach of the same or dispute in relation thereto (including, but not limited to, legal proceedings), and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding;
- that matters such as retention of key personnel and ownership of assets are in good standing, and will remain so;
- any public information used in relation to ABP and ASF and any other publicly available information relied on by us, is accurate and not misleading and up to date;
- information in relation to the Merger that is distributed to Securityholders, or any information issued by a statutory body is complete, accurate and fairly presented in all material respects;
- the legal mechanisms required to implement the Merger are valid and effective;
- there will be no impact, such as triggering of repayment of bank loans, arising from the changes in ownership of ASF and ABP;
- if the Merger is implemented, it will be implemented in accordance with the draft transaction documents provided to us; and
- we note that the Pro forma Statement of Financial Position and Pro forma Income Statement included in the Explanatory Memorandum are prepared on the basis that, in accordance with early adoption of AASB 10, AASB 11 and AASB 12, after 30 June 2011, ABP will consolidate various related entities, including ASF.

10 Basis of assessment

10.1 The tests to be applied

In preparing this Report we considered the Regulatory Guides issued by ASIC.

The “fair” and “reasonable” tests to be applied will be the type of opinion required in relation to both item 7 of section 611 of the Corporations Act and Guidance Note 15 issued by the Takeovers Panel in relation to Trust Schemes.

The “in the best interest” test to be applied will be the type of opinion required in relation to corporate schemes of arrangement under section 411 of the Corporations Act.

Although the Merger strictly speaking, is not a takeover bid or a scheme of arrangement, an issue of securities in ASF to ABP Securityholders will occur, such that the ownership interest in ASF of the Participating ASF Securityholders will reduce from approximately 91.1% to approximately 8.9%. In our view, in substance, the Merger can be regarded as a takeover of ASF by ABP in which ABP is offering mainly scrip consideration (its own securities) and some cash.

10.2 Fair and Reasonable

In the circumstances of a Control Transaction, RG 111 indicates that the words “fair” and “reasonable” establish two distinct criteria:

- is the offer “fair”; and
- is it “reasonable”?

Fair

Under RG 111, an offer is “fair” if the value of the offer consideration (irrespective of whether the consideration is scrip, cash or a combination) is equal to or greater than the value of the securities the subject of the offer (RG 111.11). This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

If the bidder (in this case, ABP) is offering non-cash consideration in a Control Transaction, the expert should examine the value of that consideration and compare it with the valuation of the securities under offer (RG 111.30).

The comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the securities under offer, assuming 100% of the securities are available for sale (that is, on a controlling interest basis). According to ASIC, this comparison reflects the fact that:

- the acquirer (ABP) is obtaining or increasing control of the target (ASF); and
- the investors in the target (ASF) will be receiving scrip constituting minority interests in the combined entity (i.e. the Merged Group).

The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison.

The expert may need to assess whether a scrip takeover is in effect a merger of entities of equivalent value when control of the merged entity will be shared equally between the bidder and the target. In this case, the expert may be justified in using an equivalent approach to valuing the securities of the bidder and the target (RG 111.31).

However, under the Merger, in view of the large difference in size between ABP and ASF, and that Participating ASF Securityholders would acquire only 8.9% of the increased number of New Stapled Securities in the Merged Group, we do not believe that it can be said that control of the Merged Group will be shared equally between ABP and Participating ASF Securityholders.

Reasonable

Under RG 111, an offer is “reasonable” if it is fair (RG 111.12). It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 indicates that when deciding whether an offer is reasonable, an expert might consider factors such as the following:

- the bidder’s pre-existing voting power in securities in the target;
- other significant security holding blocks in the target;
- the liquidity of the market in the target’s securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of the target;
- any special value of the target to the bidder;
- the likely market price if the offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made;
- whether the offer price may be greater than the price at which the securities were trading before the takeover bid was made; and
- the likelihood that the bidder would increase its offer price, including to a price that an expert would assess as “fair”.

In a transaction of this nature there will be advantages and disadvantages. It is necessary to form an overall view of the trade off for relevant Securityholders as a whole. These will differ between the Securityholders, depending upon their individual circumstances.

10.3 In the best Interest

We note that RG 111 indicates that in ASIC’s view, if a proposal is:

- fair and reasonable – it is in the best interest of the relevant security holders;
- not fair but reasonable - it is in the best interest of the relevant security holders; or
- neither fair nor reasonable - it is likely to be not in the best interest of the relevant security holders.

11 Profile of ABP

11.1 Background

ABP is an internally managed, stapled entity, listed on the ASX. ABP owns and manages real estate assets in Australia and New Zealand, and carries on three core businesses:

- Direct Property Investment;
- Funds Management And Wholesale Third Party Alliances; and
- Property Ventures.

ABP's market capitalisation as at 31 October 2011 was \$735 million and as at 30 June 2011 its total assets were \$1.6 billion with net assets of \$1.1 billion. ABP is included in the S&P/ASX All Ordinaries Index; S&P/ASX 200 Index; S&P/ASX 300 Index and S&P/ASX Small Ordinaries Index.

A security in ABP comprises one fully paid share in each of Abacus Group Holdings Limited ("**AGHL**") (which is the parent entity of ABP) and Abacus Group Projects Limited ("**AGPL**"), and one fully paid unit in each of Abacus Trust ("**AT**") and Abacus Income Trust ("**AIT**"). Abacus Funds Management Limited ("**AFML**") is wholly owned by Holdings and is the responsible entity of both AT and AIT.

11.2 Activities

ABP states that it is a total return real estate investor and the only private equity style real estate investor in the ASX 200. ABP seeks to invest capital in core-plus assets that are actively managed with a view to producing long-term total returns through the property cycle. ABP seeks Australian assets in gateway cities that ABP believes are mispriced by the market and are capable of both cash flow growth and capital appreciation as the asset re-rates because of ABP active management. Where appropriate, mature assets are realised to release capital to be redeployed into a new set of higher growth investments. ABP seeks to partner with large and successful private equity investors such as the Kirsh group of companies ("**Kirsh**"), Heitman LLC ("**Heitman**") and AM alpha GmbH ("**AM alpha**").

ABP has been and continues to be, a principal investor in core-plus real estate assets that provide underlying returns and have embedded capital growth that is realised through active management over the medium term.

In FY2011 ABP:

- acquired over \$360 million of assets;
- divested over \$120 million of mature assets; and
- created various investing partnership arrangements with global real estate investment managers, Heitman and AM alpha.

In FY2012 ABP intends to:

- continue to pursue a strategy where the balance sheet has a 70% exposure to directly owned core-plus property investments. Over time, successful implementation of this strategy will result in ABP deriving a greater level of earnings from recurring rental streams;
- as one means of funding the above strategy, undertake a strategic review of its unlisted retail funds management business to accelerate the redeployment of approximately \$250 million of capital invested in these funds into direct core-plus investments; and
- continue to develop the third party capital joint venture investment strategy as ABP considers that this represents the best return on capital strategy in the current environment.

11.2.1 Direct property investments

ABP holds a diversified investment portfolio of primarily commercial, industrial and retail properties. Rental income from these properties is the largest contributor to the earnings of the Group. The property portfolio is primarily situated on the eastern Australia seaboard.

As at 30 June 2011, Abacus Property Group had a diversified property investment portfolio with a book value of approximately \$984 million. This represents an increase of \$127 million over the portfolio as at 30 June 2010. In addition, ABP holds interests in a number of properties through joint ventures accounted for using the equity method.

Table 10 - Property portfolio as at 30 June 2011

\$ million	Notes	FY2011	FY2010
Investment properties (including held for resale)		844.3	709.1
Inventory		46.0	60.2
Plant, Property and equipment	1	19.3	30.1
Equity accounted investments		61.6	49.7
Total assets		971.2	849.1
Allocation of other property/co-investments	2	12.9	7.6
Total	3	984.1	856.7

Source: ABP, LCF analysis

Notes:

- 1** Including a portfolio of budget accommodation properties in New Zealand & two small hotels in NSW. The New Zealand assets were sold after year-end at approximately book value.
- 2** Comprises mainly ABP's investment in Abacus Aspley Village Trust (\$9.9 million) and, liquor and gaming licences relating to the two small hotels (refer Note 1)
- 3** The Total differs from the amount of \$1,022 million disclosed by ABP in the Explanatory Memorandum and various Investor Presentations as we have reclassified, for the purposes of this Report, \$38 million of other property/co-investment assets as being part of the Funds Management business. These assets mainly relate to ABP's interest in the Abacus Miller Street Fund.

As at 30 June 2011, investment properties comprise 56 predominately commercial (43%), industrial (22%) and retail (35%) properties spread across mainly the eastern seaboard of Australia with a focus on New South Wales (57%) and Queensland (16%).

The following properties make up the principal investment property portfolio as at 30 June 2011:

Table 11 - ABP principal investment properties as at 30 June 2011

Property	State	Sector	Book Value \$ million
Ashfield Mall properties, Ashfield	NSW	Retail	120.8
Birkenhead Point Shopping Centre, Drummoyne (Note 1)	NSW	Retail	92.5
Liverpool Plaza properties, Liverpool	NSW	Retail	35.5
Moorabbin House & Home, Moorabbin	VIC	Retail	28.0
Westpac House, Adelaide (Note 1)	SA	Commercial	65.0
51 Allara Street, Canberra	ACT	Commercial	52.7
14 Martin Place, Sydney	NSW	Commercial	50.6
Virginia Park, Bentleigh East (Note 1)	VIC	Commercial	49.7
Epping Office Park, Epping	NSW	Commercial	39.5
171 Clarence Street, Sydney	NSW	Commercial	31.8
CSIRO Headquarters, Canberra	ACT	Commercial	18.0
Varsity Lakes properties, Gold Coast	QLD	Commercial	14.7
350 George Street, Sydney (Note 1)	NSW	Commercial	6.8
Campbelltown properties, Campbelltown	VIC	Commercial	23.6
Mina Parade, Alderley	QLD	Industrial	18.0
10-12 Pike Street, Rydalmere	NSW	Industrial	16.8
Greenacre properties, Greenacre	NSW	Industrial	14.6
Pinkenba properties, Pinkenba	QLD	Industrial	12.5
66 Christina Road, Villawood	NSW	Industrial	9.5
Lennons Plaza, Brisbane	QLD	Other	55.0
Total			755.6

Source: ABP Property Book 2011.

Note 1: 50% interest.

Inventory includes property held for development and, as at 30 June 2011, mainly comprised an industrial site at Lewisham in NSW which is expected to be sold in FY2012.

ABP also owns \$19.3 million of property classified as property, plant and equipment, including a portfolio of budget accommodation properties in New Zealand and two hotels in New South Wales.

Equity accounted and other property/co-investment represents joint ventures and other projects including a \$49.8 million investment in Virginia Park. Situated in Bentleigh East, Victoria, Virginia Park is a sizeable business park with a mix of industrial and office buildings that has recently been enhanced following the purchase of a neighbouring site that offers expansion potential and residential opportunities.

Income from the portfolio is the largest contributor to the earnings of the Group accounting for 71%, or \$78 million, of Group EBITDA in FY2011; up from 69% in FY2010. This increase arose, in part, from an increase in transaction income arising from the sale of 343 George Street in Sydney, which contributed approximately \$14 million to profit in the first half of 2011

During FY2011, Abacus adopted a strategy to strengthen the quality of its direct property investment portfolio. Abacus undertook over \$400 million of acquisitions either directly or in concert with its capital partners at a weighted average cap rate of 8.25%.

The value of the direct investment portfolio grew during FY2011 to over \$971 million following the acquisition of a number of larger Sydney assets, accompanied by a reduction in the number of smaller assets through a divestment program of mature, non-core assets for \$120 million at an average cap rate of 8%.

Acquisitions contracted or completed in FY2011 and subsequently included:

Table 12: - ABP Investment property acquisitions in FY2011 and subsequently

Announcement date	Asset	Purchase price 100% \$m (Note 1)	ABP investment \$m (Note 1)	ABP ownership interest %	Wholesale Third Party Capital Alliances
FY2011					
24-Jul-10	Birkenhead Point	174.0	87.0	50%	Kirsh
2-Nov-10	350 George Street	25.8	12.9	50%	W Property
14-Dec-10	167-175 Clarence Street	29.5	29.5	100%	None
19 Dec 2010 & 26 Jun 2011	32 Walker Street North Sydney	35.6	8.9	25%	Heitman
23-Dec-10	14 Martin Place	95.0	47.5	50%	Kirsh
Subsequent to FY2011					
13 Jul 2011 & 29 Sep 2011	309 George Street	68.8	17.2	25%	AM alpha
28-Jul-11	16 Griffith Avenue	10.2	10.2	100%	None
6-Nov-11	484 St Kilda Road (Note 2)	68.0	17.0	25%	Heitman
Total		506.9	230.2		

Source: ABP FY2011 Investor Presentation, ABP

Notes:

- 1** Excluding transaction costs.
- 2** To be settled in December 2011.

Key portfolio metrics for the property portfolio for the three six month periods ending 30 June 2011 are set out in Table 13.

Table 13 - Key portfolio metrics

	Jun 11	Dec 10	Jun 10
Portfolio value (\$m)	971	891	849
Number of assets	56	66	61
Net Lettable Area (sqm)	349,036	332,388	359,632
Capitalisation Rate (%)	8.50	8.54	8.53
Occupancy (%)	92.8	91.4	93.2
Rent growth (%)	3.0	2.6	3.7
Weighted Average Lease Expiry – by income (years)	4.0	4.3	4.3

Source: ABP FY2011 & FY2010 Investor Presentations.

Operating metrics for the portfolio improved during FY2011 with significant new leases signed or existing leases retained. Occupancy fell to 91.4% in December 2010 following the sale of 343 George Street. The improvement in occupancy in the half year to 30 June 2011 is due, in part, to better than average leasing terms secured on new properties including Birkenhead Point Shopping Centre & Marina, 14 Martin Place, and 171 Clarence Street, all in Sydney.

While occupancy and rental rates have increased, the weighted average lease expiry ("**WALE**") of the portfolio has decreased from 4.3 years at June 2010 to 4.0 years at June 2011. The lease expiry profile for the portfolio shows 21% and 19% of existing leases expiring in FY2012 and FY2013, respectively.

11.2.2 Property valuation policy

Up to 30 June 2011, ABP's property valuation policies can be summarised as follows:

Table 14 - ABP's property valuation policies

Asset Class	Valuation policy
Investment properties	Investment properties are carried at the Directors' determination of fair value and are based on independent valuations. The determination of fair value includes reference to the original acquisition cost together with capital expenditure since acquisition and either the latest full independent valuation, latest independent update or directors' valuation. Total acquisition costs include incidental costs of acquisition such as property taxes on acquisition, legal and professional fees and other acquisition related costs. The independent and director valuations are based on common valuation methodologies including capitalisation and discounted cash flow approaches, which have regard to recent market sales evidence. Accordingly, the directors' valuations at 30 June 2011 have regard to market sales evidence in adopting a market valuation for each property, including the key assumptions outlined.
Inventory	Inventories are held at the lower of cost and net realisable value.
Property, Plant and Equipment (PPE)	PPE are carried at Directors' determination of fair value and are based on independent valuations. The determination of fair value includes reference to the original acquisition cost together with capital expenditure since acquisition and either the latest full independent valuation, latest independent update or directors' valuation. Total acquisition costs include incidental costs of acquisition such as property taxes on acquisition, legal and professional fees and other acquisition related costs. The independent and director valuations are based on common valuation methodologies including capitalisation and discounted cash flow approaches, which have regard to recent market sales evidence. Accordingly, the directors' valuations at 30 June 2011 have regard to market sales evidence in adopting a market valuation for each property, including the key assumptions outlined.

Source: ABP Financial Report 2011

11.2.3 Property Valuations at 30 June 2011

Up to 30 June 2011, independent valuations of each investment property were conducted annually, either in December or June of each year by independent, registered valuers from a panel of well-known firms such as Colliers, Savills and CBRE.

The key underlying assumptions, on a portfolio basis, contained within the independent and director valuations above are as follows:

- weighted average capitalisation rate for the Group and each category is as follows:
- Group – 8.50% (30 June 2010: 8.53%)
- Retail – 8.07% (30 June 2010: 8.03%)
- Commercial – 8.56% (30 June 2010: 8.48%)
- Industrial – 9.41% (30 June 2010: 9.31%)
- Other – 8.76% (30 June 2010: 7.92%); and
- the current occupancy rate for the portfolio is 92.8% (30 June 2010: 93.2%) which is not expected to materially change during the period relevant to the valuations

As noted in Table 14 above, the independent and director valuations are based on common valuation methodologies including capitalisation and discounted cash flow approaches, which have regard to recent market sales evidence. Accordingly, the directors' valuations at 30 June 2011 have regard to market sales evidence in adopting a market valuation for each property including the key assumptions outlined.

As at 30 June 2011, 51.8% of the property portfolio was subject to external valuations, the remaining 48.2% was subject to internal valuation. Sixty percent (60%) of the investment portfolio was independently valued as at 31 December 2010.

We have reviewed a sample representing approximately 51% by value of both external and internal valuations as at 30 June 2011 and 31 December 2010.

External (independent) valuations of properties not independently valued as at 30 June 2011 have recently been completed. Accordingly, 55% of ABP's property portfolio has been independently revalued in the last six months and nearly 100% of properties have been independently valued in the last twelve months. All properties not independently revalued have been subject to internal valuation. Valuations conducted post 30 June 2011 have not had a material impact on the total carrying value of investment properties as at 30 June 2011.

A reconciliation of the carrying value of investment properties, excluding properties held for sale, at the beginning and end of each year is as follows:

Table 15 - Reconciliation of the carrying value of ABP investment properties

\$'000	2011	2010
Investment properties at beginning of each year	709,062	752,839
Less: held for sale	(91,327)	(44,289)
Investment properties excluding held for sale	617,735	708,550
Additions and capital expenditure	208,807	37,488
Fair value adjustments for properties held at balance date	(5,325)	(18,775)
Transfers	(31,874)	(1,850)
Disposals	(7,470)	(60,595)
Effect of movements in foreign exchange	-	(45)
Properties transferred to held for sale	(28,746)	(47,038)
Carrying amount at end of the financial year	753,127	617,735
Add: Properties held for sale	91,131	91,327
Total investment properties at end of each year	844,258	709,062

Source: ABP 2011 and 2010 Annual Reports

11.3 Funds management and wholesale third party capital alliances

ABP has provided unlisted investment products to investors via financial planners since 1996. This business has historically been a significant component of ABP's business of providing recurring fee income from management and other services. The GFC had a material impact on the flow of retail funds into the unlisted property fund sector. As a result, ABP has had to restructure a number of its unlisted retail funds. ABP is undertaking a strategic review of the unlisted retail funds management platform during FY2012. ABP has entered into a number of wholesale third party capital alliances, whereby property investments are entered into with alliance partners.

11.3.1 Third Party Capital Alliances

Abacus has a third party capital strategy including joint ventures/joint investments with a number of organisations, including Kirsh, Heitman and AM alpha. The strategy is designed to leverage existing capital while the cost of new debt and equity remain high. Almost all property acquisitions in FY2011 have been done with partners including the post 30 June 2011 acquisitions.

Kirsh

Kirsh is a privately held investment group, with substantial international business interests in Africa, the United Kingdom, North America and Israel, and several property investments in Western Australia and a significant investment in ABP. In association with Ascot Capital Limited, Kirsh's property interests in Western Australia include Jandakot Airport, Wesfarmers House and a joint venture with the West Australian Cricket Association.

Kirsh is the largest security holder in ABP.

AM alpha GmbH

AM alpha is a Munich-based private investment advisory firm that carries out real estate investments on its own account as well as for a number of private clients, including for several affluent German families. AM alpha focuses on investments in prime real estate in Europe and Asia. Its Asian operations are headquartered in Singapore with AM alpha (Singapore) Pte. Ltd. established to advise on, and source, prime real estate investment opportunities in gateway cities in the Asia Pacific region.

Heitman LLC

In June 2011, ABP announced the formation of a joint venture with Heitman to invest in core-plus office, retail and industrial properties in major Australian gateway cities. The first asset to be acquired by the joint venture was a commercial office building at 32 Walker St, North Sydney, with the subsequent acquisition of 484 St, Kilda Road in November 2011 (see Table 12).

Under the terms of the joint venture, the parties will contribute equity up to \$266 million with targeted gross assets of approximately \$600 million (implying debt: total assets gearing of approximately 56%). Heitman, on behalf of a global institutional investor, will provide 75% of the equity and ABP will provide the remaining 25%.

ABP will provide local property management services to the joint venture and share in the asset management responsibilities with Heitman.

11.4 Funds management

ABP is directly invested in, and manages, a number of properties and property investment funds ("**Funds**"). Third party investors have also contributed equity to the Funds. The Funds typically invest in property-related assets and use debt to partially fund their investments. In addition to direct equity investment in the Funds, ABP has also advanced loans and working capital facilities, and provided financial support to the Funds.

The major funds managed by ABP are Abacus Storage Fund ("**ASF**"), Abacus Diversified Income Fund II ("**ADIF II**"), Abacus Hospitality Fund ("**AHF**"), Abacus Miller Street Fund ("**AMSF**") and Abacus Wodonga Land Fund ("**AWLF**").

Many of the debt facilities within the funds have covenants relating to the level of gearing and interest coverage in the Fund. To the extent that property values or income levels in a particular Fund fall, there is a risk that the Fund may breach a relevant covenant. ABP has exposure to the Funds via its equity investments and loans it has made in the Funds. There are no relevant cross default provisions across ABP managed Funds, or as between ABP and its managed Funds. ABP has indicated that it expects full recoverability of capital invested in the core funds, subject to the provisions in its accounts in this regard at 30 June 2011.

Historically, ABP's strategy has been to earn fees by sharing in total returns, such as performance fees payable upon liquidity events for an unlisted fund. The ASF fee arrangements in this regard are described in more detail in the ASF section of this report. ABP has redirected its strategy towards wholesale, third party capital alliances and has announced a strategic review of the funds management business in FY2012 to determine the future direct of the business in the light of current market conditions.

In FY2011:

- difficult market conditions continued to affect the distribution of unlisted retail investment products;
- ABP incurred a \$16 million impairment charge in relation to restructuring its debt to AHF; and
- ABP refinanced the bank debt of ASF, ADIF II and AHF.

ABP considers that the Funds are stable, operating within bank covenant limits and to strategy; albeit with no or limited liquidity for unit holders and with limited to no prospects of attracting additional equity capital in current market conditions.

Set out below is a summary of some financial information regarding the property assets and gearing of the Funds as at 30 June 2011.

Table 16 - Property investment funds as at 30 June 2011

Fund metrics	Note	Measure	ASF	ADIF II	AHF	AMSF	AWLF	Jigsaw
Assets		No.	41	24	5	1	1	8
Assets under management		\$m	339	188	173	65	54	9
Assets under management		%	41%	23%	21%	8%	7%	1%
Weighted average value cap rate		%	9.2	9.0	8.9	8.3	an	na
Occupancy		%	85%	94%	70%	98%	na	na
Bank debt		\$m	179	91	69	34	15	na
Covenant Gearing	1	%	53.5%	51.8%	44.3%	54.1%	42.7%	na
Covenant requirement		%	55.0%	54.6%	45.0%	57.5%	50.0%	na
Weighted average by value bank debt maturity	2	years	2.1	1.6	3.0	1.0	1.0	na
ABP investments (including related entities)	3	\$m	56.4	102.5	104.9	23.5	31.8	3.8
comprising	(i)		\$28.7m ASF AWCF	\$47.4m ADIF II AWCF	\$87.5m AHF AWCF	na	na	na
	(ii)		\$4.9m loan	\$48.0m subordin ated loan	\$7.0m second- ranking loan	\$20.8m Second- ranking loan	\$31.8m Secured loan	na
	(iii)		\$22.8m equity	\$7.1m equity	\$10.4m equity	\$2.7m equity	15% of any fund equity	\$3.8m equity
Consolidation under AASB 10			Yes, but subject to the Merger	Yes	Yes	Yes	No	No, already consolid ated by ABP

Source: ABP

Notes:

1 Secured loans as a percentage of bank approved security.

2 AMSF has renegotiated its banking facilities after year-end for one further year ending September 2012. AWLF is currently in discussions with its bankers regarding its facilities.

3 Combined debt and equity investment, as at 30 June 2011, (updated for any material events).

na: not applicable

ADIF II, AHF, AMSF and AWLF are described below. ASF is described in detail in Section 12 of this Report. ASF accounts for 41% of the gross assets under management by the funds management business.

11.4.1 Funds managed by ABP

Abacus Diversified Income Fund II

ADIF II invests in a diversified portfolio of commercial, retail and industrial properties across a range of sectors. Its core focus is commercial investment properties less than \$25 million in value. As at 30 June 2011, ADIF II held \$185.9 million of direct and indirect property investments. The fund is a fixed term investment of approximately 6 years.

The fund has three classes of units; Class A, Class B and Class C. ABP has provided yield and capital guarantees to the unitholders various classes of units.

Table 17 - ADIF II: ABP yield and capital guarantees

Unit Class (capital)	Underwritten Distributions	Underwritten Capital Return
Class A (\$1.00)	Based on the actual distributable cash of the fund after 1 July 2011	\$1.00 per unit at 30 September 2013 if the net assets per unit are less than \$1.00 at 30 June 2013
Class B (\$1.00)	9.0% p.a. plus indexation in line with inflation each year after 1 July 2011	\$1.00 per unit at fund termination (effective from 30 June 2016)
Class C (\$0.75)	9.0% p.a. plus indexation in line with inflation each year after 1 July 2011	\$0.75 per unit at fund termination (effective from 30 June 2016)

Source: ADIF II Constitution; various offer documents.

The underwritten capital return applies to all ADIF II units on issue as at 1 July 2013 (Class A) and after 1 July 2016 (Class B and C). The underwritten capital return can be satisfied at ABP discretion (Class A) or unit holders' discretion (Class B and C) through either a payment in cash or by ABP issuing stapled securities in ABP. As at 30 June 2011, ABP estimated the present value of its liability under the underwritten capital return at \$10 million, which it recognised as a non-current liability in its financial statements at that date.

If at the end of ADIF II's term, or on a winding up of ADIF II, the net proceeds from the sale of the fund or its properties exceed the aggregate underwritten capital return for all unit holders, all investors will be entitled to a distribution of any further surplus up to 10% on their original equity before ABP is entitled to be paid any reduced management fees.

ABP loans to ADIF II

ABP's loans to ADIF II, as at 30 June 2011, comprised:

Table 18 - ABP's loans to ADIF II

Loan facility	\$ million
ABP Loan Facility ("ALF")	48.0
ABP Working Capital Facility ("ADIF II AWCF")	47.4
Total	95.4

Source: ADIF II FY2011 Annual Report

ABP also holds and indirect interest in approximately 7.1 million ADIF II units, representing approximately 13% of units on issue as at 30 June 2011.

The ADIF II AWCF has been structured so that any outstanding principal amount is subordinated to other creditors of the fund. In the event there is a distribution on winding-up and there is a deficiency of net assets, the ADIF II AWCF is repayable on a proportionate basis with a return of capital to unit holders.

The ALF cannot be repaid until after 30 June 2016. On winding up, all or part of the AFL will be reduced to the extent necessary to enable full repayment of unit holder equity under the underwritten capital return.

Fund raising

ADIF II has been open for new investment and during FY2011 \$13.0 million of new equity was raised. Any funds raised under the open Product Disclosure Statement ("**PDS**") are intended to repay the ADIF II AWCF. ABP has announced that the ADIF II PDS will close in December 2011 and no further equity will be raised.

Abacus Hospitality Fund

AHF owns five hotel properties located in Australia and New Zealand valued at \$155.6 million as at 30 June 2011 (\$160.2 million as at 30 June 2010). Over \$120 million from three hotel asset sales have been achieved since the GFC. The five hotels owned by AHF are

- Novotel Twin Waters, Sunshine Coast QLD
- Chateau on the Park, Christchurch New Zealand
- Rydges Tradewinds Cairns, QLD
- Rydges Esplanade Cairns, QLD
- Diplomat Hotel, Canberra ACT.

Following the GFC, current valuations of the hotels are now at substantial discounts to replacement cost.

ABP has advanced a loan to AHF ("**AHF AWCF**"). In FY2011 \$11.0 million was forgiven. In addition, during FY2011 ABP reduced the interest rate on the AHF AWCF from 8.0% p.a. to 4.37% p.a. for six months during the year in line with equity distributions.

The AHF AWCF matures in March 2016 and ranks equally with unit holders upon liquidation to the extent there is a deficit/shortfall to the most recent unit issue price of \$1.03/security.

Terms for new three year, \$80 million bank debt facility were signed on 30 June 2011.

As at 30 June 2011 total interest bearing debt was \$163.5 million (including \$94.6 million owed to ABP and its related entities). The gearing of the fund, excluding loans owed to ABP, was 40% as at 30 June 2011 with interest cover at 2.51 times earnings, assuming the AHF AWCF is converted to equity and the loan fully repaid.

ABP holds an indirect interest in approximately 10 million AHF securities, being 20% of securities on issue as at 30 June 2011. AHF is closed to new investment.

Abacus Miller Street Fund

AMSF owns 50 Miller Street, North Sydney. The property comprises:

- 9,974 m2 of commercial office space over ten levels;
- 650 m2 of ground floor retail; and
- 76 car parking spaces.

National Australia Bank has leased the office space and parking for a 10 year period from 1 November 2007 (subject to limited surrender rights from November 2013). Annual rental reviews are fixed at 4%.

As at 30 June 2011, the net assets of the trust were \$9.0 million comprising the property (at external valuation) of \$62.8 million plus working capital, net of interest bearing liabilities of \$54.8 million, including \$20.8 million owed to ABP.

ABP holds an interest in approximately 5.6 million AMSF securities, being 30% of securities on issue as at 30 June 2011. AMSF is closed to new investment.

Abacus Wodonga Land Fund

Abacus Wodonga Land Fund ("**AWLF**") originally owned 173 hectares of land three kilometres from the centre of Wodonga in Victoria. Since August 2008, land has been sold for commercial use, residential housing and public open space. The project is a mixed use development comprising over 1,100 residential lots, school, aquatic centre, retirement village and shopping complex. At 30 June 2011, 206 residential lots had been settled and approximately 68 lots were developed and available for sale. Subsequent lots will be developed in line with demand.

At 30 June 2011 the carrying value of the property was \$48.7 million, reflecting an impairment charge of \$9.1 million based on slower than expected sales.

The net assets of AWFL as at 30 June 2011 were \$1.4 million, down from \$11.9 million at the previous year-end as a result of the operating loss, including impairment charge. Net assets comprised the property, interest bearing liabilities of \$46.5 million, including \$31.8 million owed to ABP, and working capital.

AWLF failed to meet its residential sales targets in the quarter ended 31 March 2011 and 30 June 2011 and this constituted a banking review event as a result of which the bank commissioned an independent valuation. The valuation confirmed that the fund remained compliant with its 50% LVR covenant.

There was also a review event at 30 September 2011 that resulted from the low number of sales achieved in the quarter to 30 June 2011, despite an improvement in the sales rate for the quarter ended 30 September 2011. The bank is not currently exercising any rights as a consequence.

As at 30 June 2011, AWLF's bank borrowings totalled \$14.7 million and mature in June 2012 and AWLF's current liabilities exceeded its current assets by \$7.3 million. ABP has provided a letter indicating that it intends to finance the AWLF for twelve months from the date of signing the financial statements to the extent necessary to ensure AWLF will be able to meet its current liabilities as and when liabilities fall due within the next 12 months. AFML is in discussions with the bank regarding renewal of the facility.

The gearing of the fund, including loans owed to ABP, was 93% as at 30 June 2011.

ABP holds an indirect interest in approximately 8.5 million AWFL securities, being 14.9% of units on issue as at 30 June 2011. AWLF is closed to new investment.

11.4.2 Financial performance

The financial performance of the funds management business for the three years ended 30 June 2011 is summarised below:

Table 19 - Financial performance of the Funds Management business

\$'000	FY2011	FY2010	FY2009
Funds management income	21,341	25,797	25,839
Share of profit from equity accounted investments	(1,211)	(729)	3,195
Net change in fair value of investments and financial instruments derecognised	-	-	3,316
Other revenue	243	-	-
Total revenue	20,373	25,068	32,350
Allocated costs	(7,267)	(6,458)	(8,106)
EBIT before fair value adjustments and non-recurring items	13,106	18,610	24,244
Net change in fair value of investments and financial instruments held at balance date	(311)	-	
Restructuring AHF (Note 1)	(16,000)		
Debt forgiveness due to restructuring of ADIF II		(4,900)	(11,000)
EBIT after fair value and non-recurring adjustments	(3,205)	13,710	13,244
Underlying EBIT			
Segment EBIT before fair value adjustments and non-recurring items	13,106	18,610	24,244
Add back / (deduct) Adjustment for fair value of investments and financial instruments	0	0	(3,316)
Underlying EBIT	13,106	18,610	20,928

Source: ABP FY2011, FY2010 & FY2009 Annual Reports and Investor Presentations – Differences due to rounding

Note 1: \$11 million debt forgiveness plus an additional \$5 million provision

ABP earns funds management income from managing the Funds and certain property joint ventures, property management fees, transaction fees (ABP earns fees on acquisitions and disposals of properties in certain circumstances and for capital raising), consulting fees and interest income. The majority of the funds management income comprises interest on debt facilities provided to the various funds.

ASF provides over 20% of the total funds management and property management fees. The property investment funds provide approximately two thirds of the total funds management and property management fees.

Funds management income has been in steady decline since pre-GFC levels of over \$40 million. Income was 17% lower in FY2011 compared to FY2010, primarily due to reduced interest income (\$2.4 million) and reduced transaction fees (\$1.3 million). Interest income, and to a lesser extent management fee income, reduced as ABP provided financial support to certain of the Funds by reducing its income rights. Transaction fee income is highly variable, depending upon the type and amount of transactions undertaken.

Over the last three years ABP's invested capital in the Funds has been revalued and written-down; \$16 million in AHF in FY2011 (\$11 million debt forgiveness and \$5 million provision) and \$31.9 million in total over the three years to 30 June 2011.

As at 30 June 2011, ABP had various investments in the Funds, comprising direct and indirect (i.e. via joint venture) equity and loans.

Table 20 – Gross investment in the Funds as at 30 June 2011

\$'000	Direct ABP Balance sheet segments (Funds management & Property)	Indirect through Joint ventures	Total
AWCF	135,178	23,338	158,516
Loan	112,574		112,574
Equity	30,243	21,871	52,114
Total	277,995	45,209	323,204

Source: ABP; LCF analysis.

The loans are classified as either loans or Abacus Working Capital facilities, some of which have various rights of conversion to equity.

11.4.3 Strategic Review of Funds Management business

ABP has announced a strategic review of the Funds Management business to be completed in FY2012. The objective of the review is to find ways to accelerate the redeployment of capital invested in the Funds in line with ABP's strategy of having 70% exposure to directly held, core-plus investment properties. Factors to be considered include:

- ABP's current material exposures to a number of the Funds;
- ABP's mixed roles in the Funds as investor, lender and manager;
- the significant reduction in transaction fees post-GFC and the likelihood this will continue into the foreseeable future, given the current uncertain economic environment; and
- reduced investor appetite for essentially illiquid, unlisted property plays. Funds inflows to ADIF II, the only open Fund, were relatively small in FY2011 (\$13 million).

11.5 Property ventures

11.5.1 Background

ABP participates in a range of property development projects with sophisticated partners by combining capital and property expertise with the regional or sector-specific expertise of experienced business partners. ABP provides a range of property financing solutions, including mezzanine finance, structured equity participation and, to a lesser extent, pre-sales agreements. However, the specific funding/investment instrument utilised is designed to ensure that ABP can effectively control the project but at the same time minimising the costs and risks of participation. This segment also is responsible for the Group's investment in property securities.

ABP targets:

- up to 30% of balance sheet assets being devoted to this business; and
- a 15–25% pa IRR across all projects.

The property finance business has typically provided 1st and 2nd mortgage loans where the returns were made up of interest and fee income.

Over the past 10 years ABP has written over \$184m of mortgages earning an average IRR (net of provisioning) of 19% pa.

11.5.2 Assets

As at 30 June 2011, property ventures had a total amount of \$207m invested in 15 development projects, and a further \$12m invested in non-core, minority interests in investment vehicles, such as LifeCare Residences International, a global retirement developer.

The accounting segments as at 30 June 2011, 31 December 2010 and 30 June 2010 disclose the following assets of the Property Ventures segment:

Table 21 – Property Ventures Segment Balance sheet total assets as at 30 June

As at \$m	30 June 2011	31 Dec 2010	30 June 2010
Property related			
Inventory	34.5	32.1	30.9
Property loans and other financial assets			
Interim funding and interest	4.3	4.1	4.0
Secured loan and interest	137.1	140.1	155.2
Other investments and financial assets – property options at – at cost	20.0	20.0	20.0
Total Property loans and other financial assets	161.4	164.3	179.2
Equity accounted investments			
Joint Ventures / Projects – at fair value	10.6	14.3	13.5
Total assets	206.5	210.6	223.6
Allocation of other property / co-investments	11.9	22.4	59.0
Total segment assets	218.4	233.0	282.6

Source: ABP FY2011, FY2010 and FY2009 Annual Reports and Investor Presentations.

Generally speaking, inventory has grown and secured loans and Joint Ventures / Projects – at fair value have fallen.

General loan characteristics include:

- majority secured with first mortgages;
- loans accrue interest until project delivery;
- impairment tests performed every six months; and
- where agreed, profit share components are realised at project completion.

The investments have property development business risk as they will be repaid from successful development activities, such as obtaining re-zoning, or extend to construction.

In certain instances, ABP takes a position of both lender and equity investor. In such circumstances, ABP will derive both interest income and profit share from such projects.

General Joint venture projects and investments characteristics include:

- mix of preferred equity, mezzanine loans and ordinary equity;
- held in joint venture at the lower of cost and net recoverable amount; and
- joint venture bank debt is non-recourse to ABP.

The investments in the Property Ventures portfolio as at 30 June 2011 were are predominantly urban infill residential land subdivisions, as follows:

Table 22: - ABP Property Ventures as at 30 June 2011

Projects	Note	State	Sector	ABP Investment (Note 1)	
				\$m	%
RCL portfolio		NSW	Mixed	89.5	43%
Bay Street	1	VIC	Mixed (retail & residential)	24.3	12%
Muswellbrook		NSW	Residential	18.3	9%
Hampton		VIC	Residential	14.9	7%
Rosebery		NSW	Residential	12.9	6%
Main Street	2	VIC	Mixed	10.2	5%
The Abbey		NSW	Mixed	6.4	3%
Ingleburn		NSW	Residential	6.0	3%
Werrington		NSW	Residential	5.1	2%
Other	3	-	-	18.9	9%
Total				206.5	100%

Source: ABP

Notes:

- 1 Combined debt and equity investment.
- 2 Classified as inventory due to 100% ownership.
- 3 Eight (8) investments of \$2.1 million average size.

RCL portfolio

The single largest asset is the Riverlands, Camellia and Lewisham portfolio ("RCL Portfolio") consisting of 3 development projects that are cross-collateralised:

- Riverlands: an 82ha site at Milperra, NSW;
- Camellia: a 6.7ha site near Parramatta, NSW; and
- Lewisham: a large industrial site at Lewisham.

ABP's investment is by way of a combination of debt and equity.

In FY2010, ABP took advantage of market conditions to restructure its involvement to deliver equity participation in the Riverlands project and additionally, access to additional projects Camellia and Lewisham. ABP obtained first mortgage positions across Camellia and Lewisham. ABP provides management assistance across all projects. Planning approvals are progressing.

The Riverlands site consists of a former golf course and development land. The site overlooks the Georges River and is adjacent to the M5 motorway. The Riverlands project is a proposed residential rezoning of the land for a 600-lot residential development. Bankstown Council is in the process of undertaking a number of consultants' reports for the rezoning. Council expect that they will have their review of the site completed by March 2012. ABP is entitled to 50% of the project profits. Project realisation is expected in 2013.

The Camellia site is located 2km from Parramatta and is situated on the Parramatta River and main transport links. The site is suited for large supermarket and general shopping centre use. The site has already been rezoned from industrial to retail awaiting an amendment to rezoning regarding a residential component. Council has stated that they support residential development above the retail development component on the site and the developer is currently preparing a draft amendment to the LEP to allow 12 stories of residential on the site. ABP is entitled to 50% of the project profits. Project realisation is expected in 2013.

The Lewisham site is located within the inner west corridor of the Sydney metropolitan on main rail and road links to the CBD. The site currently consists of a large income producing industrial asset. The project is undergoing a rezoning of the land to residential with the NSW Department of Planning. The project proposes in excess of 300 residential units. ABP is entitled to 50% of the project's profits.

Sale of the Lewisham industrial site is expected in FY2012. A conditional sale of Lewisham has been negotiated, with a variable price depending upon a number of factors, including satisfactory development approval conditions (including the amount of the Approved Gross Floor Area).

ABP's investment in the RCL portfolio as at 30 June 2011 was as follows:

Table 23 - ABP investment in RCL portfolio

\$m	
As at 30 June	2011
ABP total investment	135.4
Represented by:	
First and second mortgages	69.5
Equity rights (fair value)	20.0
Lewisham and Camellia (inventory)	45.9

Source: ABP, ABP FY2010 & FY2011 Annual Investor Presentations.

Pakenham

The project at Main Street, Pakenham has Council support to allow retail (supermarket and speciality shops) and commercial activities. ABP is pursuing required amendments be approved by Council to allow the mixed-use development. ABP's investment in the Main Street project as at 30 June 2011 was \$10.2 million.

Brighton

The project at Bay Street, Brighton is a project involving development of a three level basement, supermarket, retail speciality shop and 95 residential apartments. A conditional agreement with Coles to purchase the retail element has been entered into. Expected settlement dates are last quarter of 2013 for retail components and December 2013 to January 2013 for residential. An off market expression of interest campaign for the residential has commenced. Approval for the development was granted in December 2010. However, a variation is being sought, which is expected to be determined in early 2012. ABP's investment in the Bay Street project as at 30 June 2011 was \$24.3 million.

Muswellbrook

The project at Muswellbrook involves a 1,200 lots (157ha) residential land sub-division close to the Muswellbrook town centre. The land has already been partially subdivided and sold. Further stock will be subdivided and sold in stages. Expected final realisation is over the period FY2012 to FY2015. ABP's investment in the Muswellbrook project as at 30 June 2011 was \$18.3 million.

11.5.3 Performance

The accounting segments for FY2011 disclose the following segment underlying earnings of the Property Ventures segment:

Table 24 - Property Ventures Segment and underlying earnings

\$m	FY2011	FY2010	FY2009
Segment result			
Finance income	21.2	16.0	16.2
Consulting income	0.0	0.6	5.2
Other income and distributions	-	0.4	1.1
Net change in fair value of investment derecognised	1.6	1.6	7.2
Share of profit from equity accounted investments	(7.7)	0.3	5.0
Total revenue	15.1	19.0	35.7
Allocated costs (Note 1)	(4.0)	(4.6)	(3.1)
Segment EBIT	11.1	14.4	32.6
Net change in fair value of investments	(16.0)	(7.1)	(5.9)
Segment result after fair value adjustments	(4.8)	7.3	26.7
Underlying EBIT			
Segment EBIT	11.1	14.4	32.6
Add back / (deduct) Adjustment for fair value movements in JV's	6.9	(0.6)	(1.5)
Underlying EBIT	18.0	13.8	31.1

Source: ABP FY2011, FY2010 & FY2009 Annual Reports and Investor Presentations – Differences due to rounding

Note 1: Allocated costs relate to Employee Salary & Benefits (approximately two thirds in FY2011) and other direct and allocated expenses of operating the activity (approximately one third in FY2011).

The majority of the income in more recent years (FY2011 and FY2010) has arisen from the loans advanced. In FY2009 there was a significant amount of consulting income and an increase in fair value of investment properties. Net negative changes in fair value of investments significantly impacted the segment result in FY2010 and FY2011.

Approvals have been obtained on a number of property venture projects that will unlock value and create liquidity:

- Bay Street, Brighton: development plans approved with construction expected to begin early FY2012. Planned sale of retail component to Coles for \$36 million conditional upon project funding, which is being negotiated;
- conditional offer received for RCL Lewisham high-density infill residential site. A development application lodged with the NSW State government is awaiting approval;
- Camellia development application revised to include substantial residential unit development in addition to current retail opportunity; and
- Roseberry: 136 unit residential and retail conversion. Pre-sales have reached 115 units. Construction began in August 2011.

During FY2011, as a result of currency movements and in recognition of the restrictive capital markets in the UK, ABP impaired its minority equity investment in a global retirement living developer (Life Care Residences International Limited (formerly Sanctuary Residences Limited)) that owns and operates retirement villages in the United Kingdom and Australasia and has a number of retirement village projects currently underway in England and New Zealand.

The Childcare exposure was realised following the sale of the investment to a private equity group. The transaction delivered proceeds of \$19 million via \$9 million cash and sale of 6 freehold childcare centres over 6 months to 30 June 2011.

Projects targeted for realisation in FY2012 include:

- Main Street, Pakenham, Victoria once commercial site re-zoning is approved; and
- RCL Lewisham site once NSW State government approval is received.

As will be seen from the analysis of underlying profits (refer Section 11.7.2) and cash flows (refer Section 11.9), in FY2009, FY2010 and FY2011, ABP enjoyed a high correlation between underlying profit and cash flows from operating activities, which supported the ability of ABP to fund distributions from cash flows.

11.6 Directors and senior management

11.6.1 Directors

The Directors of ABP are as follows:

John Thame - Chairman: Mr Thame is a Non Executive Director. has over 30 years' experience in the retail financial services industry in senior management positions. His 26-year career with Advance Bank included 10 years as Managing Director until the Bank's merger with St George Bank Limited in 1997. Mr Thame was Chairman (2004 to 2008) and a director (1997 to 2008) of St George Bank Limited and St George Life Limited. He is also a director of Reckon Limited and The Village Building Co Limited (Group).

Mr Thame is Chairman of the Due Diligence Committee and an ex-officio member of the Audit & Risk and Remuneration & Nomination Committees. Mr Thame is a member of the due diligence committee set up in respect of this Explanatory Memorandum.

Frank Wolf – Managing Director: Dr Wolf is the Managing Director of Abacus Property Group. He has over 20 years' experience in the property and financial services industries, including involvement in retail, commercial, industrial and hospitality-related assets in Australia, New Zealand and the United States. Dr Wolf has been instrumental in over \$3 billion worth of property related transactions, corporate acquisitions and divestments and has financed specialist property-based assets in the retirement and hospitality sectors. Dr Wolf is a director of HGL Limited, a diversified publicly listed investment company.

Dr Wolf is a member of the Due Diligence Committee and a member of the due diligence committee set up in respect of this Explanatory Memorandum.

David Bastian: Mr Bastian is a Non-Executive Director and has almost 40 years' experience in the financial services industry. He was the Managing Director of the Group until September 2006, Managing Director of the Canberra Building Society for 20 years and an Executive Director of Godfrey Pembroke Financial Services Pty Limited for 7 years.

Mr Bastian is a member of the Due Diligence and Remuneration & Nomination Committees.

William J Bartlett: Mr Bartlett is a Non-Executive Director. As a partner at Ernst & Young for 23 years, he held the roles of Chairman of Worldwide Insurance Practice, National Director of Australian Financial Services Practice and Chairman of the Client Service Board. Mr Bartlett is a director of Suncorp-Metway Limited, GWA Limited, Reinsurance Group of America Inc and RGA Reinsurance Company of Australia Limited and is Chairman of Kennards Self Storage. Mr Bartlett was a director of Arana Therapeutics Limited (2004 to 2007). He is also Chairman of the Council of Governors for the Cerebral Palsy Foundation.

Mr Bartlett is Chairman of the Remuneration & Nomination Committee and a member of the Audit & Risk Committee.

Malcolm Irving: Mr Irving is a Non-Executive Director and has over 40 years' experience in company management, including 12 years as Managing Director of CIBC Australia Limited. He was a director of Thales Australia Limited (2000 to 2010). He is also a director of O'Connell Street Associates Pty Limited and Macquarie University Hospital.

Mr Irving is Chairman of the Audit & Risk and Compliance Committees and a member of the Due Diligence and Remuneration & Nomination Committees. Mr Irving is the Chairman of the due diligence committee set up in respect of this Explanatory Memorandum.

Myra Salkinder: Mrs Salkinder is a Non-Executive Director and is a senior executive of Kirsh. She has been integrally involved over many years with the continued expansion of Kirsh's property and other investments, both in South Africa and internationally. Mrs Salkinder is a director of various companies associated with Kirsh worldwide. Mrs Salkinder is a member of the Due Diligence and Audit & Risk Committees.

Len Lloyd: Mr Lloyd is a licensed Real Estate Agent and a registered Real Estate Valuer. He has 40 years experience in the development, management and funding of commercial, retail and residential property. Mr Lloyd joined the Abacus Property Group in October 2000 and now holds the position of Managing Director of Abacus Property Services Pty Limited responsible for property administration and development opportunities in the Abacus Property Group portfolio. In previous positions Mr Lloyd held responsibility for the property portfolios of the Advance Bank and St George Bank and provided valuation and lending advice while with the Commonwealth Development Bank for 21 years.

11.6.2 Senior Management

The senior management of ABP are as follows:

Ellis Varejes: Mr Varejes has been Chief Operating Officer and Company Secretary of Abacus Property Group since September 15, 2006. He has over 25 years of experience as a corporate lawyer in private practice. He holds a Bachelor of Commerce and a Bachelor of Laws.

Rod de Aboitiz: Mr. de Aboitiz has been Chief Financial Officer of Abacus Property Group since August, 2006. He oversees the Group's financial reporting, tax, financing and registry activities, including its external funds. Mr. de Aboitiz joined Abacus from the merchant bank NM Rothschild (Australia) where he was Chief Financial Officer. Prior to this he was a director in PricewaterhouseCoopers' Banking and Capital Markets practice in offices around the world.

John L'Estrange: Mr. L'Estrange is Joint Director - Property Ventures of Abacus Property Group. He joined the Abacus Group in November 1999. Prior to joining the Abacus Group, he spent nine years with Westpac Banking Corporation managing a portfolio of commercial property loans.

Cameron Laird: Mr Laird is Joint Director - Property Ventures and is responsible for the Group's joint venture developments and fostering new property ventures. In addition he is responsible for the asset management and development activities across the Group's retail portfolio.

Peter Strain: Mr Strain is Director-Property, responsible for the asset management activities of the Group.

Cate Aarons: Ms Aarons is Head of Strategy, responsible the ongoing strategy for all Abacus funds. Cate has worked with the Managing Director, Frank Wolf, for many years on a number of transactions including at FSP and has had significant recent involvement in the strategy of ABP's funds.

Kim Kitchen: Ms Kitchen is Head of Retail Distribution and responsible for the Group's unlisted retail products.

Neil Summerfield: Mr Summerfield is Head of Investor Relations, responsible for investor relations, communications and marketing activities to the Group's listed and wholesale stakeholders.

Phil Peterson: Mr Peterson is Associate Director – Investments and is the fund manager of ASF, responsible for investment and development activities in addition to the general day-to-day management of the fund.

Alan Thake: Mr Thake is Associate Director – Investments, and is the fund manager for the Group's other unlisted funds, including the AHF and ADIF II.

Gavin Lechem: Mr Lechem is the Director – Specialised Capital whose primary responsibilities is the matching of Abacus' capital requirements and asset strategy with third party capital. Prior to joining Abacus in July 2010, Gavin was a Division Director with Macquarie Capital Advisers where he originated and managed numerous significant real estate principal and advisory transactions, and developed a number of new products including a wholesale opportunity fund platform. Gavin joined Macquarie Group in 2001. Prior to Macquarie, Gavin's experience includes General Manager of a residential development company, M&A with CS First Boston and Solicitor with Freehills.

Rob Boulderstone: Mr Boulderstone is General Manager Finance, responsible for the Group's financial reporting.

11.7 Income Statements

11.7.1 Statutory consolidated income statements

The statutory consolidated income statements of ABP for FY2009, FY2010 and FY2011, are summarised in the table below.

Table 25 - ABP Statutory Consolidated Income Statements

Year ended 30 June \$'000	2011 Audited	2010 Audited	2009 Audited
Rental income	74,276	71,238	78,927
Finance income	23,263	17,940	18,243
Funds management income	20,438	25,075	31,065
Sale of inventory	78,000	-	-
Net gain on sale of property, plant and equipment	364	-	-
Net change in fair value of investment properties derecognised	1,271	2,116	1,784
Net change in fair value of investments and financial instruments derecognised	3,013	5,174	9,110
Share of profit / (loss) from equity accounted investments	(3,413)	6,463	8,801
Income from distributions	1,367	1,784	1,512
Other	2,430	-	-
Total Revenue and Other Income	201,009	129,790	149,442
Property expenses & outgoings	(13,531)	(11,677)	(11,406)
Depreciation, amortisation and impairment expense	(3,129)	(4,728)	(1,994)
Cost of inventory sales	(63,094)	-	-
Net change in fair value of derivatives	(8,458)	(6,247)	(51,420)
Net change in fair value of investment properties held at balance date	(6,158)	(18,775)	(107,518)
Net change in fair value of investments held at balance date	(16,285)	(7,100)	(5,908)
Finance costs	(33,912)	(29,722)	(44,864)
Impairment charges – related parties	(16,000)	(4,900)	(11,000)
Administrative and other expenses	(22,027)	(20,982)	(19,500)
Profit Before Tax	18,415	25,659	(104,168)
Income tax expense	(571)	(666)	1,178
Profit after tax	17,844	24,993	(102,990)
External non-controlling interests	494	(443)	(578)
Statutory net profit attributable to ABP Securityholders	17,350	25,436	(102,412)
Basic and diluted earnings per security (cents)¹	4.66	7.65	(11.81)

Source: ABP Annual report FY2009, FY2010 and FY2011

Note 1: Adjusted for 5:1 consolidation in November 2010.

ABP earned a statutory net profit attributable to members of \$17.4 million for the year ended 30 June 2011 versus \$25.4 million in FY2010. The reduction in the statutory performance reflects the impact of restructuring investments in its unlisted retail funds and devaluation of minority investments.

11.7.2 Underlying income

ABP's statutory net profit is influenced by changes in the fair value of its investment properties, other investments and derivative arrangements.

The income statements of ABP showing underlying income for FY2009, FY2010 and FY2011, are presented in the table below.

Table 26 - ABP Underlying Income Statements

Year ended 30 June \$'000	2011 Audited	2010 Audited	2009 Audited
Statutory net profit attributable to ABP Securityholders	17,350	25,436	(102,412)
Add back /(deduct):			
Net fair value movements on investments			
- Investment properties	6,158	18,775	107,518
- Property securities	16,285	7,100	5,908
- Net loss in fair value of investment held at balance date	22,443	25,875	113,426
- Investment properties included in equity accounted profits from associates and joint ventures	6,871	(619)	(1,467)
- Net change in fair value of derivatives	8,458	6,247	51,420
Debt forgiveness and provisioning pursuant to the restructuring of Abacus Hospitality Fund (2011) and ADIFII (2009 and 2010)	16,000	4,900	11,000
- Net change on property, plant and equipment remeasured at fair value	1,029	-	-
- Impairment of intangibles	-	3,064	-
Underlying Profit	72,151	64,903	71,967
Underlying earnings per security (cents) (unadjusted for 5:1 consolidation)	19.38	3.90	8.30
Underlying earnings per security (cents) (adjusted for 5:1 consolidation)	19.38	19.52	41.5
Cash flow from operating activities ¹	66,788	64,605	65,588
Distributions ²	61,817	52,766	58,463
Distributions as % of Cash flow from operating activities	93%	82%	90%
Distributions per security (cents) (unadjusted for 5:1 consolidation)	16.5	3.15	7.75
Distributions per security (cents) (adjusted for 5:1 consolidation)	16.5	15.75	38.75
Distributions as % underlying earnings (per security) (unadjusted for 5:1 consolidation)	85%	81%	93%

Source: ABP Annual report FY2009, FY2010 and FY2011 and Presentations to investors

Notes:

1 In FY2011 adjusted to include the net profit not the gross proceeds of sale of 343 George Street, Sydney

2 Includes distribution declared and paid post year end; in FY2011 distributions paid 25 February and 15 August 2011

We note the following in relation to the underlying income statements of ABP:

- the underlying profit reflects the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the profitability for the ongoing business activities of ABP;
- despite the difficult market conditions during FY2011, ABP delivered an 11% increase to underlying profit of \$72.2 million up from \$64.9 million in FY2010, and slightly exceeding underlying profit in FY2009
- the increase in underlying profit in FY2011 reflects higher transactional income, including the sale of 343 George Street, Sydney;
- difficult market conditions continued to affect the distribution of unlisted retail investment products. Funds management contributed \$13.1 million to the result;

- nine properties were sold during the year for \$111.9 million, which realised a profit of \$16.2 million;
- cash flow from operating activities also recovered from the fall in FY2010, to slightly exceed cash flow from operating activities in FY2009;
- distributions as a % of cash flow from operating activities have fluctuated between 93% in FY2011 and 82% in FY2010; and
- distributions per ABP security have fluctuated between 93% of underlying earnings per security in FY2009 to 81% in FY2010 and were 85% in FY2011.

11.7.3 Segment earnings

The segment underlying earnings of ABP for FY2011 were as follows:

Table 27 - ABP FY2011 segment underlying earnings

Segment EBIT to underlying profit \$m	Note	Property investment	Funds management	Property Ventures	Total
Rental income		74.3	-	-	74.3
Finance income		1.0	-	21.2	22.2
Funds management income		-	21.3	-	21.3
Sale of inventory		78.4	--	-	78.4
Net change in fair value of investment properties derecognised		2.7	-	1.6	4.3
Share of profit from equity accounted investments		5.5	(1.2)	(7.7)	(3.4)
Other revenue		2.2	0.2	-	2.4
Other unallocated revenue		-	-	-	1.5
Total revenue		164.0	20.3	15.1	201.0
Cost of inventory sales		(63.1)			(63.1)
Direct costs	1	(16.7)			(16.7)
Allocated costs	2	(9.3)	(7.3)	(4.0)	(20.5)
Unallocated costs					(1.5)
Segment EBIT		75.0	13.1	11.1	99.2
Adjustment for minority interests		(0.5)			(0.5)
Adjustment for fair value movements in JV's				6.9	6.9
Net loss on PP&E		1.1			1.1
Underlying EBIT		75.6	13.1	18.0	106.7
Add: Depreciation and amortisation					2.1
Underlying EBITDA					108.8
Finance costs	3				(33.9)
Tax expense					(0.6)
Depreciation and amortisation					(2.1)
Underlying Profit					72.2

Source: ABP FY2011 Investor Presentation

Notes:

1 Includes depreciation and amortisation.

2 Includes \$0.1m of Share Appreciation Rights.

3 Includes \$1.5m of upfront debt costs expensed as a result of the club refinancing.

11.7.4 FY2012 Outlook

ABP has not provided any guidance on the earnings outlook for FY2011.

We have reviewed various broker consensus estimates of future earnings and distributions of ABP in the absence of the Merger.

Table 28 - ABP Brokers' Consensus Estimates

Year ending 30 June \$ million	2013 Estimate	2012 Estimate	2011 Actual	2010 Actual	2009 Actual
Underlying profit	72.07	69.54	72.2	64.9	71.97
Net cash flows from operating activities	78.65	77.8	66.8 ¹	64.61	65.6
Underlying earnings per share (cents)	18.8	18.3	19.4	19.5	41.5
Cash flow per share (cents)	19.4	18.7	33.0 ²	19.4 ²	36.8 ²
Distributions per share (cents)	16.6	16.2	16.5	15.8	35.0

Source: Capital IQ

Notes:

1 Adjusted to include the net profit not the gross proceeds of sale of 343 George Street, Sydney.

2 Actual numbers are as reported by Capital IQ and may reflect adjustments made by Capital IQ for consistency with their Estimates.

Available broker consensus estimates for ABP FY2012 indicate that underlying earnings are estimated to decrease by 3.7% to \$69.54 million and then recover in FY2013 to FY2011 levels. Earnings per share available for distribution are estimated to decrease in FY2012 by 5.7% to 18.3 cents and distributions per security are expected to decrease by 1.8% to 16.2 cents before recovering in FY2013.

We have also been provided with ABP's internal budgets and year-to-date results to 30 September 2011. ABP's year-to-date performance is in line with budget.

11.8 Statements of financial position

A summary of the audited statements of financial position of ABP as at 30 June 2009, 2010 and 2011 is presented in the table below.

Table 29 - ABP Statements of financial position

As at 30 June	2011	2010	2009
\$'000	Audited	Audited	Audited
Cash and cash equivalents	45,504	21,792	9,124
Trades and other receivables	12,758	8,842	22,093
Property loans	33,536	87,011	99,957
Other financial assets	959	2,189	6,187
Property, plant and equipment held for sale	-	20,901	-
Inventory	45,989	60,176	5,264
Investment properties held for sale	91,131	91,327	44,289
Other	3,262	1,949	1,391
Total Current Assets	233,139	294,187	188,305
Property loans	307,625	325,199	303,342
Other financial assets	72,976	47,057	34,054
Property, plant and equipment	19,325	9,249	32,276
Inventory	34,489	30,891	-
Investment properties	753,127	617,735	708,550
Equity accounted investments	127,287	127,710	127,469
Deferred tax assets	12,481	13,186	11,329
Intangible assets and goodwill	35,173	35,173	38,225
Trade and other receivables	6,000	-	-
Other	-	4,914	2,243
Total Non-Current Assets	1,368,483	1,211,114	1,257,488
Total Assets	1,601,622	1,505,301	1,445,793
Trade and other payables	13,448	13,001	13,272
Interest-bearing loans and borrowings	13,450	240,565	61,829
Other	3,010	2,834	2,832
Total Current Liabilities	29,908	256,400	77,933
Trade and other payables	13,575	4,065	6,676
Interest-bearing loans and borrowings	433,115	109,136	329,555
Derivatives at fair value	27,360	30,320	40,035
Deferred tax liabilities	-	284	355
Other	4,346	2,227	1,512
Total Non-Current Liabilities	478,396	146,032	378,133
Total Liabilities	508,304	402,432	456,066
Net assets	1,093,318	1,102,869	989,727
Contributed equity	1,143,253	1,110,517	987,497
Reserves	2,656	1,815	2,468
Accumulated losses	(66,346)	(23,262)	(14,647)
Total stapled security holders' interest in equity	1,079,563	1,089,070	975,318
Total external non-controlling interest	13,755	13,799	14,409
Total Equity	1,093,318	1,102,869	989,727

As at 30 June	2011	2010	2009
\$'000	Audited	Audited	Audited
Analysis			
Year-end securities (adjusted for 5:1 consolidation)	378,484	362,710	301,924
Net assets per security attributable to securityholders	2.85	3.00	3.23
Net tangible assets per security attributable to securityholders	2.73	2.86	3.07
Group Gearing (total assets)	25.8%	22.1%	26.6%
Group Gearing (total tangible assets)	26.6%	22.8%	27.6%
Covenant Gearing (Total Liabilities less cash / Total Tangible Assets less cash)	30.7%	26.5%	32.2%
Look through gearing (Note 1)	32.1%	25.8%	31.0%

Source: ABP Annual Reports and Investor Presentations FY2009, FY2010 and FY2011; LCF analysis.

Note 1: Joint venture assets and debt are consolidated proportionately based on equity interest.

We note the following in relation to the financial position of ABP as outlined above:

- total assets grew by 6.4% to \$1.6 billion as at 30 June 2011. Total property assets at 30 June 2011 were \$971.2 million. During the year, the group acquired 5 properties for \$186.9 million. Nine properties were sold during the year for \$111.9 million which realised a gross profit of \$16.2 million;
- during FY2011, the contributed equity of ABP increased \$32.7 million to \$1,143.3 million compared to \$1,110.5 million at 30 June 2010 due to securityholders participation in the distribution reinvestment plan. Total equity decreased by 0.9% to \$1,093.3 million at 30 June 2011 compared to \$1,102.9 million at 30 June 2010;
- no provision for distribution has been recognised as at 30 June 2011 as the distribution had not been declared by the end of the year;
- Group Gearing increased to 25.8% as at 30 June 2011 versus 22.2% as at 30 June 2010, which reflects increased borrowings to acquire buildings mainly located in Sydney's CBD; and
- net assets and net tangible assets per ABP Security, based on net assets excluding external non-controlling interests, were \$2.85 and \$2.73, respectively. This is above the last traded price of \$2.31 as at 30 June 2011 and approximately \$1.90 as at 31 October 2011.

11.8.1 Segment assets of ABP

The segment assets of ABP as at 30 June 2011 were as follows:

Table 30 - ABP segment balance sheet total assets

As at 30 June 2011 \$ million	Total	Property invest- ment	Funds manage- ment	Property Ventures	OP&CI (Note 1)	Other
Property related						
Property, plant and equipment	19.3	19.3				
Inventory	80.5	46.0		34.5		
Investment properties	844.3	844.3				
Total Property related	944.1	909.6		34.5		
Property loans and other financial assets						
-Interim funding and interest to funds	151.5		147.2	4.3		
-Secured loan and interest	189.7		31.8	137.1	20.8	
- Other investments and financial assets	79.9		48.0	20.0	11.9	
Total Property loans and other financial assets	421.1		227.0	161.4	32.7	
Equity accounted investments						
- Virginia Park	64.4	49.8			14.6	
- Joint Ventures / Projects	17.5	6.9		10.6		
- Co-Investments	45.3	4.9	27.5		12.9	
Total Equity accounted investments	127.2	61.6	27.5	10.6	27.5	
Other assets						
Cash and cash equivalents	45.5					45.5
Other assets	28.5					28.5
Intangibles	35.2				2.7	32.5
Total Other assets	109.2				2.7	106.5
Total assets	1,601.6	971.2	254.5	206.5	62.9	106.5
Allocation of other property / co-investments (Note 2)	-	12.9	38.1	11.9	(62.9)	
Total segment assets	1,601.6	984.1	283.6	218.4	0.0	106.5

Source: ABP FY2011 Investor Presentation, LCF analysis

Notes:

- 1** OP&CI – Other Property (non-core) and Co-Investments (minorities).
- 2** For the purposes of this Report, we have re-classified certain other property/co-investments to align with the basis on which we have valued ABP

11.8.2 Bank debt Facilities and Banking Covenants

ABP's historical bank debt metrics have been as follows:

Table 31 - ABP historical bank debt metrics

Bank debt facilities	Note	Measure	30-Jun-11	31-Dec-10	30-Jun-10	30-Jun-09
Total bank debt facilities	1	\$m	608	620	626	617
Total bank debt drawn		\$m	434	357	342	392
Undrawn amount		\$m	174	263	284	225
Undrawn amount		%	29%	42%	45%	36%
Weighted average term to maturity		years	2.1	2.6	1.3	1.6
% debt hedged		%	58	49	51	76
Weighted average hedge maturity		years	4.1	5.5	6.0	4.7
Weighted average cost of debt drawn	2	%pa	7.8	8.3	8.0	7.3
Average cost of debt – facility (fully drawn)		%pa	7.5	7.4	7.4	7.1
Group Gearing	3	%	25.8	21.2	22.2	26.6
Bank covenant gearing	4	%	30.7	26.8	27.6	32.7
Bank covenant limit		%	50.0	50.0	45.0	45.0
Look through gearing	5	%	32.1	25.1	25.8	31.0
Covenant headroom	6	%	36.4	43.8	38.6	27.4
Interest cover ratio ("ICR")		times	3.1	3.3	3.3	2.5
ICR covenant		times	2.0	2.0	2.0	2.0

Source: ABP

Notes:

- 1 Only includes ABP's bank debt. ABP has other non-bank debt
- 2 Weighted average base rate plus margin on drawn amount plus line fees on total facility.
- 3 Group Gearing is calculated as net debt divided by total assets minus cash, excluding any impact of AASB 10.
- 4 Calculated as the % fall in asset values required to breach 50.0% covenant limit.
- 5 Includes joint venture assets and debt consolidated proportionately with Abacus' equity interest.
- 6 Covenant Gearing calculated as Total Liabilities/ Total Tangible Assets.

In the year to 30 June 2011 ABP dealt with the majority of bank refinancing across both ABP and the funds management platform following arrangement of the following new facilities:

- ABP: facilities totalling \$536 million with ANZ, CBA, WBC and Scotiabank;
- ASF: \$190 million 3 year facility with WBC, ANZ and NAB;
- ADIF II: \$50 million 3 year facility with CBA;
- Virginia Park joint venture: extended the \$64 million facility for a further 3 years;
- AHF: \$80 million 3-year facility with CBA.

At 30 June 2011 the maturity profile of ABP's bank debt was as follows:

Table 32 - ABP debt maturity profile as at 30 June 2011

Maturity	FY2012	HY2013	FY2013	HY2014	FY2014	FY2015 +	Total
Amount (\$m)	13	33	-	349	-	38	434

Source: ABP Investor Presentation FY2011

The facilities are provided by several banks, are denominated in Australian dollars and the term to maturity varies from June 2012 to June 2015. The facilities are secured by a first ranking charge over the investment properties, certain inventory and certain property, plant and equipment.

Approximately 57.6% (30 June 2010: 51.2%) of bank debt drawn was subject to fixed rate arrangements with a weighted average term to maturity of 4.13 years. The effective fixed interest rate of borrowings covered by fixed rate swaps (including bank margins and fees on both drawn and undrawn amounts) was 7.67%pa at 30 June 2011 (30 June 2010: 8.79%pa), while interest on floating rate borrowings is based on swap and yield rates quoted on the rate reset date. ABP's weighted average interest rate as at 30 June 2011 was 7.84% (30 June 2010: 8.00%). Undrawn facilities line fees contributed to 0.50% of the weighted average interest rate at 30 June 2011 (30 June 2010: 0.57%). ABP's weighted average interest rate excluding the undrawn facilities line fees as at 30 June 2011 was 7.33% (30 June 2010: 7.43%).

Bank debt covenants

A summary of the current key banking covenants are set out below.

Table 33 - ABP Group's key banking covenants

Covenant / Ratio	Covenant requirement	Key details
Nature of facilities	Secured, non recourse ¹	The Group has no unsecured facilities
ABP ICR	> 1.5	ABP Net rental income / Interest expense (including fixed rate swaps)
Group ICR	> 2.0 ²	Group EBITDA (ex fair value P&L and impairment to goodwill & intangibles) / Total interest Expense (including fixed rate swaps)
Total Gearing	< 50% ²	Total Liabilities (net of cash) / Total Tangible Assets (net of cash)
LVR	< 50% to 62.5% ⁴	Drawn Loan / Bank accepted valuations
Gearing ratio on a look through basis	< 60% ³	ABP gearing plus gearing from proportional consolidation of equity accounted investments

Source: ABP – Annual report FY2011

Notes:

- 1** There are no market capitalisation covenants.
- 2** Condition of the current \$400m Syndicated facility, \$80m Working Capital facility and the \$70m Bilateral facility.
- 3** Condition of the \$80m Working Capital facility.
- 4** The 62.5% LVR for the Working Capital Facility will step down to 60.0% from 1 July 2012.

11.8.3 Contingent Liabilities

At 30 June 2011, the ABP Group had numerous commitments and contingent liabilities that principally related to:

- property acquisition settlement;
- loan facility guarantees;
- property refurbishing costs;
- unused mortgage loan facilities advanced to third parties (as part of the property ventures business).

Commitments contracted for and other contingent liabilities at 30 June 2011 reporting date not recognised as liabilities are as follows:

Table 34 - ABP Commitments and other contingent liabilities - 30 June 2011

ABP Commitments and other contingent liabilities	Audited \$'000
Gross settlement of property acquisitions	24,005
Property refurbishment costs	15,023
Unused portion of loan facilities to outside parties	4,127
Facilities unused at reporting date - bank loans	43,155

Source: ABP Annual Report FY2011

If settlement of the above items occurs, such that funds have to be advanced, given the nature of the items, in our opinion it is likely that assets of equivalent value would be acquired in return for the advance of funds. For example, if property acquisitions in the amount of \$24m were settled and funds of that amount expended, in our opinion, it is likely that properties of about that value would then be recognised on the statement of financial position as assets, and the expenditure of the funds would be recognised as either a reduction in cash or an increase in borrowings. In the event, the net asset position of ABP should not materially alter.

In our opinion, it is likely that a similar position would arise in regard to the other contingency items noted above.

On the basis of the above, in arriving at our valuation conclusions, we have not made any adjustment for the above commitments and contingent liabilities.

11.9 Cash flow statements

The audited cash flow statements of ABP for FY2009, FY2010 and FY2011 are summarised in the table below.

Table 35 - ABP Statement of cash flow

Year ended \$'000	2011 Audited	2010 Audited	2009 Audited
Income receipts	185,260	134,581	156,870
Interest received	1,970	632	1,215
Distribution received	1,328	1,211	688
Income tax paid	(229)	(2,447)	(118)
Finance costs paid	(30,238)	(26,297)	(43,967)
Operating payments	(35,597)	(43,075)	(49,100)
Net cash flows from operating activities	122,494	64,605	65,588
Payments for investments and funds advanced	(91,904)	(76,665)	(179,692)
Proceeds from sale and settlement of investments and funds repaid	58,156	54,214	83,400
Purchase of property, plant and equipment	(1,104)	(185)	(150)
Disposal of property, plant and equipment	9,867	944	-
Disposal of controlled entity	-	-	25,424
Purchase of investment properties	(175,245)	(37,143)	(55,983)
Disposal of investment properties	32,090	62,556	54,020
Purchase of inventories	-	(86,995)	-
Payment for other investments	20	(1,345)	10,336
Net cash flows used in investing activities	(168,120)	(84,619)	(62,645)
Proceeds from issue of stapled securities	-	110,986	211,463
Payment of issue / finance costs	(340)	(8,101)	(5,787)
Repayment of borrowings	(136,729)	(300,771)	(309,424)
Proceeds from borrowings	233,283	250,958	123,964
Distributions paid	(26,876)	(20,452)	(60,895)
Net cash flows from financing activities	69,338	32,620	(40,679)
Net increase in cash and cash equivalents	23,712	12,606	(37,736)
Net foreign exchange differences	-	62	83
Cash and cash equivalents at beginning of year	21,792	9,124	46,777
Cash and cash equivalents at end of year	45,504	21,792	9,124
Net cash flows from operating activities	122,494	64,605	65,588
Underlying Profit (refer Table 26)	72,151	64,903	71,967

Source: ABP – Annual report FY2009, FY2010 and FY2011

Note 1: In FY2011 adjusted to include the net profit, not the gross proceeds of sale, of 343 George Street, Sydney.

We note the following in relation to the cash flows of ABP as outlined above:

- income receipts grew strongly in FY2011, largely as the result of income from sales of investment properties;
- over FY2009, FY2010 and FY2011, ABP has repaid borrowings in a net amount of over \$138.7m;
- ABP raised over \$322m in equity capital in FY2009 and FY2010 that assisted in placing ABP in a sound financial position; and
- in FY2009, FY2010 and FY2011, ABP enjoyed a high correlation between underlying profit and cash flows from operating activities, which supported the ability of ABP to fund distributions from cash flows.

11.10 New accounting standard AASB 10 Consolidated Financial Statements

11.10.1 Generally

New accounting standards, AASB 10 *Consolidated Financial Statements* ("**AASB 10**") and AASB 11 *Joint Arrangements* ("**AASB 11**"), were issued in August 2011. They are operative for reporting periods beginning on or after 1 January 2013. However, early adoption is permitted.

AASB 10 establishes a consolidation model that identifies control as the single basis for consolidation for all types of entities. AASB 10 requires an entity to determine if it controls an investee. An entity will need to exercise judgement in making consolidation decisions.

AASB 10 provides a definition of control that comprises the following three elements:

- power over an investee;
- exposure, or rights, to variable returns from an investee; and
- ability to use power to affect the reporting entity's returns.

The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets (silos) and circumstances in which voting rights are not the dominant factor in determining control.

A reporting entity can have power over an investee even if the reporting entity holds less than 50 per cent of voting rights of that investee. Power is not defined as the legal or contractual right to direct relevant activities but is based on the ability to direct relevant activities unilaterally. The new control definition reflects that an investor can achieve power over an investee in many ways, not just through governing financial and operating policies. The investor must assess whether it has rights to direct the relevant activities. Although exposure to risks and rewards is an indicator of control, it is not the sole focus for consolidation for any type of entity.

Potential voting rights need to be considered in assessing control, but only if they are substantive. Potential voting rights are substantive when the holder has the practical ability to exercise its rights and when those rights are exercisable when decisions about the direction of the relevant activities need to be made. Deciding whether potential voting rights are substantive requires judgement. Potential voting rights may need to be considered even if they are not currently exercisable.

AASB 11 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). A joint arrangement is either a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

An entity must apply judgement when assessing whether a joint arrangement is a joint operation or a joint venture by considering its rights and obligations arising from the arrangement.

The new standards will alter the way in which ABP accounts for its managed funds and this will have a negative impact on the reported net tangible assets of ABP. The new standards will not have any impact on underlying earnings or cash flows.

Although the new standards are compulsory for reporting periods on or after 1 January 2013, in the interest of providing full disclosure, ABP has set out in the Explanatory Memorandum an analysis of the expected impact of the new standards (collectively designated as "AASB 10") as if they had been applied to the pro-forma ABP Group (consolidating ABP, AHT, ADIF II and AMSF) and the pro-forma Merged Group (including ASF) as at 30 June 2011.

11.10.2 Impact on pro-forma statement of financial position

Summarised below are the:

- audited statement of financial position of ABP as at 30 June 2011;
- pro-forma statement of financial position of ABP as at 30 June 2011 reflecting the distribution paid in August 2011;
- pro-forma statement of financial position of ABP as at 30 June 2011 reflecting the distribution paid in August 2011 and the adoption of AASB 10 (excluding ASF); and
- pro-forma statement of financial position of the Merged Group, (comprising of ABP and ASF) as at 30 June 2011 based on ABP and ASF pro-forma statement of financial position reflecting the adoption of AASB 10 & AASB 11.

Table 36 – Effects of AASB 10 on the pro-forma statement of financial position of Merged Group as at 30 June 2011

As at 30 June 2011	ABP	ABP Post Distribution	ABP Excluding ASF AASB 10	Merged Group AASB 10
\$'000	Actual	Pro-Forma	Pro-forma	Pro-forma
Assets				
Cash	45,504	31,438	44,998	37,169
Property loans and other financial assets	415,096	415,096	206,364	168,486
Inventory	80,478	80,478	80,977	80,977
Investment and other properties, plant and equipment	863,583	863,583	1,260,540	1,592,483
Equity accounted investments	127,287	127,287	124,572	106,057
Intangible and deferred tax assets	47,654	47,654	51,151	51,151
Other assets	22,020	22,020	6,357	27,335
Total assets	1,601,622	1,587,556	1,794,959	2,063,658
Liabilities				
Interest-bearing loans and borrowings	446,565	446,565	639,901	815,913
Interest-bearing loans and borrowings owed to related parties	-	-	-	-
Derivatives at fair value	27,360	27,360	27,713	27,713
Deferred tax liabilities	-	-	4,471	8,800
Other liabilities	34,379	34,379	96,900	103,424
Total liabilities	508,304	508,304	768,985	955,850
Net assets	1,093,318	1,079,252	1,025,974	1,107,808
Equity				
Net contributed capital	1,143,253	1,160,412	1,160,412	1,232,583
Reserves	2,656	2,656	2,656	2,656
Adjustments to retained earnings arising from consolidation	-	-	(83,433)	(73,770)
Retained earnings	(66,346)	(97,571)	(97,571)	(97,571)
Equity attributable to ABP securityholders	1,079,563	1,065,497	982,064	1,063,898
External non-controlling interests	13,755	13,755	43,910	43,910
Total equity	1,093,318	1,079,252	1,025,974	1,107,808

As at 30 June 2011	ABP	ABP Post Distribution	ABP Excluding ASF AASB 10	Merged Group AASB 10
\$'000	Actual	Pro-Forma	Pro-forma	Pro-forma
Net asset backing per security attributable to securityholders (\$)	\$2.85	\$2.75	\$2.54	\$2.51
ABP securities ('000)	378,484	386,752	386,752	424,327
NTA per security attributable to securityholders (\$)	\$2.73	\$2.63	\$2.41	\$2.39
Group Gearing (%)	25.8%	26.7%	26.7%	32.7%
Covenant Gearing (%)	30.7%	31.6%	31.6%	37.6%

Source: ABP, Explanatory Memorandum

We note that the August 2011 distribution reduced net asset and net tangible asset backing by approximately \$0.0825 per security and the DRP reduced net asset and net tangible asset backing by approximately \$0.0175 per security.

The impact of the adoption of AASB 10 and AASB 11 on ABP is that NTA is reduced by \$0.22 per ABP security comprising:

- a \$0.12 reduction due to the ABP guarantee to ADIF II unitholders being re-measured as if ADIF II were wound up and the capital guarantee payable today, even though approximately 80% of the guarantee exposure (if any) is not payable until the actual wind up date of 1 July 2016 to 30 June 2017 and approximately 20% of the guarantee exposure (if any) is not payable until 2013; and
- a \$0.10 reduction due to the AHF AWCF loan being re-measured as if the AHF were wound up at balance date, even though the loan has a term through to March 2016.

The Merger reduces the pro-forma net asset backing of New Stapled Security by a further \$0.03 per security (net tangible asset backing reduces by \$0.02 per security).

Similarly, the Group Gearing of ABP deteriorates slightly under the Merger from 26.7% as at 30 June 2011 to 32.7% following the Merger (on a pro forma basis). The gearing for bank purposes (Covenant Gearing), also deteriorates, (from 31.6% to 37.6%). However, it remains within current banking covenants.

We note that under Australian accounting standards, any transaction costs associated with acquiring real property, such as State transactions duty and legal and other costs, are generally speaking, expensed and not added to the carrying value of the real estate, which is determined with reference to its valuation (unless the valuation supports the capitalisation of the transaction costs). Accordingly, any acquisition of real estate could be expected usually to lead to a reduction in the accounting-determined net asset and net tangible assets.

11.10.3 Impact on pro-forma income statement

Summarised below are the:

- audited income statement of ABP for the year ended 30 June 2011;
- pro-forma income statement of ABP for the year ended 30 June 2011 reflecting the adoption of AASB 10; and
- pro-forma income statement of the Merged Group for the year ended 30 June 2011 based on ABP and ASF pro-forma income statements reflecting the adoption of AASB 10.

Table 37 – Effects of AASB 10 on the pro-forma income statement of Merged Group for FY2011

FY2011	ABP Statutory	ABP AASB 10 Excluding ASF	Merged Group AASB 10
\$'000	Actual	Pro-forma	Pro-forma
Net rental income	58,896	80,258	80,563
Net storage income	1,052	1,052	33,597
Net hotel income	797	12,683	12,683
Finance income	23,263	23,777	23,109
Funds management income	20,438	5,418	1,605
Net sale of inventory	14,906	14,906	14,906
Net gains from asset realisations	4,648	5,930	6,470
Share of profit / (loss) from equity accounted investments	(3,413)	(3,801)	(6,026)
Other	3,797	3,973	3,631
Total income	124,384	144,196	170,538
Depreciation and amortisation expense	(2,100)	(6,583)	(6,854)
Net change in fair value of derivatives	(8,458)	(316)	(1,657)
Net change in fair value of investment assets held at balance date	(23,472)	(25,288)	(8,811)
Finance costs	(33,912)	(51,327)	(63,439)
Debt forgiveness and provisioning	(16,000)	-	-
Administrative and other expenses	(22,027)	(26,769)	(34,071)
Profit/ (loss) before tax	18,415	33,913	55,707
Income tax	(571)	(140)	(3,501)
Profit/ (loss) after tax	17,844	33,773	52,206
External non-controlling interests	(494)	(5,916)	(5,916)
Net profit/ (loss) attributable to securityholders	17,350	27,857	46,290

Source: ABP, Explanatory Memorandum.

Again, not all the movement in profit is due to the Merger of ABP and ASF. A large part of the movement is due to the application of the AASB 10, which will impact ABP regardless of whether or not the Merger is implemented.

The impact of AASB 10 and the Merger on the pro-forma underlying profit for FY2011 is as follows.

Table 38 – Effects of AASB 10 on the pro-forma income statement of Merged Group for FY2011

FY2011	ABP Statutory	ABP AASB 10 Excluding ASF	Merged Group AASB 10
\$'000	Actual	Pro-forma	Pro-forma
Net profit attributable to securityholders	17,350	27,857	46,290
Net change in fair value of investment properties held at balance date	6,158	6,158	(10,319)
Tax effect on net change in fair value of investment properties held at balance date	-	-	2,247
Net change in fair value of investment assets held at balance date	24,185	24,185	24,185
Net change in fair value of derivatives	8,458	8,458	9,799
Debt forgiveness and provisioning	16,000	16,000	16,000
Consolidated AASB 10 profits / (losses) which legally or beneficially are not owned by ABP security holders	-	(10,507)	(10,507)
Pro-forma consolidated underlying profit	72,151	72,151	77,695

Source: ABP, Explanatory Memorandum.

The impact of AASB 10 and the Merger on the earnings and distribution per ABP / New Stapled Security is set out below.

Table 39 – Effects of AASB 10 on the per ABP Security of Merged Group for FY2011

FY2011	Units	ABP Statutory	ABP AASB 10 Excluding ASF	Merged Group AASB 10
		Actual	Pro-forma	Pro-forma
Earnings (statutory profits) per Consolidated Group security – cents (basic and diluted)	\$/security	4.7	7.5	11.3
Underlying earnings per Consolidated Group security – cents (basic and diluted)	\$/security	19.4	19.4	19.0
Distribution per Consolidated Group security – cents	\$/security	16.5	16.5	16.5
Weighted average securities (Note 1)	'000	372,327	372,327	409,902

Source: ABP, Explanatory Memorandum.

Note 1: ABP weighted average securities 372,327 plus ASF weighted average securities (on merger) 37,575

The pro forma underlying earnings per New Stapled Security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2%, in part as a result of the USI self storage assets being held by a company. This is not expected to impact distributions.

11.11 Ownership

11.11.1 Top twenty ABP Securityholders

Presented below are the top twenty ABP Securityholders and total issued securities of ABP as at 22 August 2011 as set out in the ABP FY2011 Annual Report.

Table 40 – ABP Top 20 security holder

Rank	Security holder	Number of securities	Percentage of securities
1	Calculator Australia Pty Limited	106,456,843	27.53%
2	JP Morgan Nominees Australia Limited	40,177,642	10.39%
3	Calculator Australia Pty Limited	36,391,318	9.41%
4	HSBC Custody Nominees (Australia) Limited	23,576,464	6.10%
5	National Nominees Limited	19,661,052	5.09%
6	RBC Dexia Investor Services Australia Nominees Pty Limited	19,554,761	5.06%
7	RBC Dexia Investor Services Australia Nominees Pty Limited	9,381,342	2.43%
8	Citicorp Nominees Pty Limited	7,974,251	2.06%
9	Cogent Nominees Pty Limited	6,392,762	1.65%
10	AMP Life Limited	4,917,626	1.27%
11	Citicorp Nominees Pty Limited	4,323,669	1.12%
12	JP Morgan Nominees Australia Limited	3,028,547	0.78%
13	RBC Dexia Investor Services Australia Nominees Pty Limited	2,889,134	0.75%
14	RBC Dexia Investor Services Australia Nominees Pty Limited	2,871,051	0.74%
15	Australian Executor Trustees Limited	2,410,518	0.62%
16	Equity Trustees Limited	2,319,051	0.60%
17	Kalambay Limited	2,269,502	0.59%
18	Cogent Nominees Pty Limited	2,118,594	0.55%
19	Suncorp Custodian Services Pty Limited	1,975,336	0.51%
20	Citicorp Nominees Pty Limited	1,706,408	0.44%
	Top 20 Securityholders	300,395,871	77.67%
	Other security holders	86,355,841	22.33%
	Total	386,751,712	100.0%

Source: ABP FY2011 Annual Report.

Table 40 sets out the legal registered interests. Table 41 sets out the top ten ABP security holders by economic interest, as determined by information provider Thompson Reuters and as per substantial security holding notices lodged with the ASX and ABP.

Table 41: – ABP Top 10 security holders as at 22 August 2011

Rank	Security holder	Number of securities m	Percentage of securities
1	Calculator Australia Pty Limited	151.63	39.21%
2	Perpetual Investments Limited	31,35	8.11%
3	Colonial First State Global Asset Management (Core)	12,82	3.31%
4	AMP Capital Investor Limited	4.92	1.27%
5	Wolf (Frank Michael)	2.84	0.73%
6	Australian Executor Trustees Limited (AET)	2.41	0.62%
7	Equity Trustees Limited	2.32	0.60%
8	Kalambay Limited	2.27	0.59%
9	Fidelity Management & Research Company	2.12	0.55%
10	State Street Global Advisors	1.98	0.51%
	Top 10 Securityholders	214.66	55.5%
	Other security holders	172.09	44.5%
	Total	386.75	100.0%

Source: Thomson Reuters; ABP FY2011 Annual Report; substantial shareholding notices lodged with ASX.

The top ten ABP Securityholders have relevant interests in approximately 55.5% of the total ABP Securities. The above table indicates a concentrated register.

11.11.2 Major Securityholders

Kirsh

Calculator Australia Pty Limited is associated with the Kirsh, which has relevant interests in approximately 39.2% (direct and indirect) of ABP Securities. ABP placed securities with interests associated with Kirsh in January 2009 and Kirsh underwrote the ABP one-for-one rights issue in March 2009. At the close of the rights issue in April 2009, Kirsh emerged with a substantial interest totalling 27.36%. Kirsh subsequently increased its substantial interest to the current 39.21%, by way of on-market purchases under the 3% “creep rule” of the Corporations Act.

Kirsh has advised ABP its present intention is to be a long-term strategic investor in ABP. Kirsh currently has one (non-executive) representative on the Board of ABP.

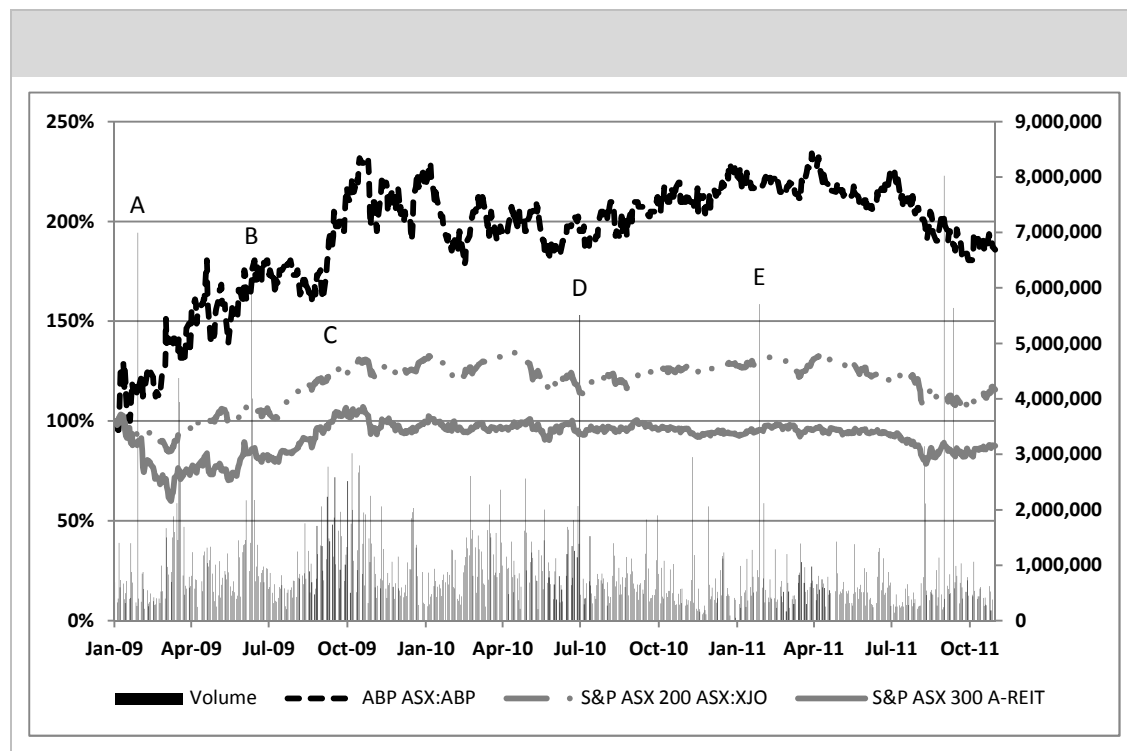
Perpetual Investments Limited

Perpetual Investments is a listed funds manager. Since January 2009, its holdings have fluctuated from below 5% to a previous high level of 7.4% in December 2009, and the last notified change in substantial holding of 8.11%.

11.12 ABP security trading analysis

The chart below compares ABP's Security trading price with the S&P ASX 200 Index ("**ASX 200 Index**") and S&P ASX 300 A-REIT Index ("**ASX A-REIT Index**") from 2 January 2009 to 31 October 2011:

Figure 1 – ABP Security price vs. S&P ASX & S&P ASX 300 A-REIT - 2 January 2009 to 31 October 2011



Source: Thompson Reuters

ABP has outperformed both of the ASX 200 Index AND ASX A-REIT Index over the period analysed.

Notable events disclosed by ABP which may have impacted the ABP Security trading price and volumes in the period analysed are set out below:

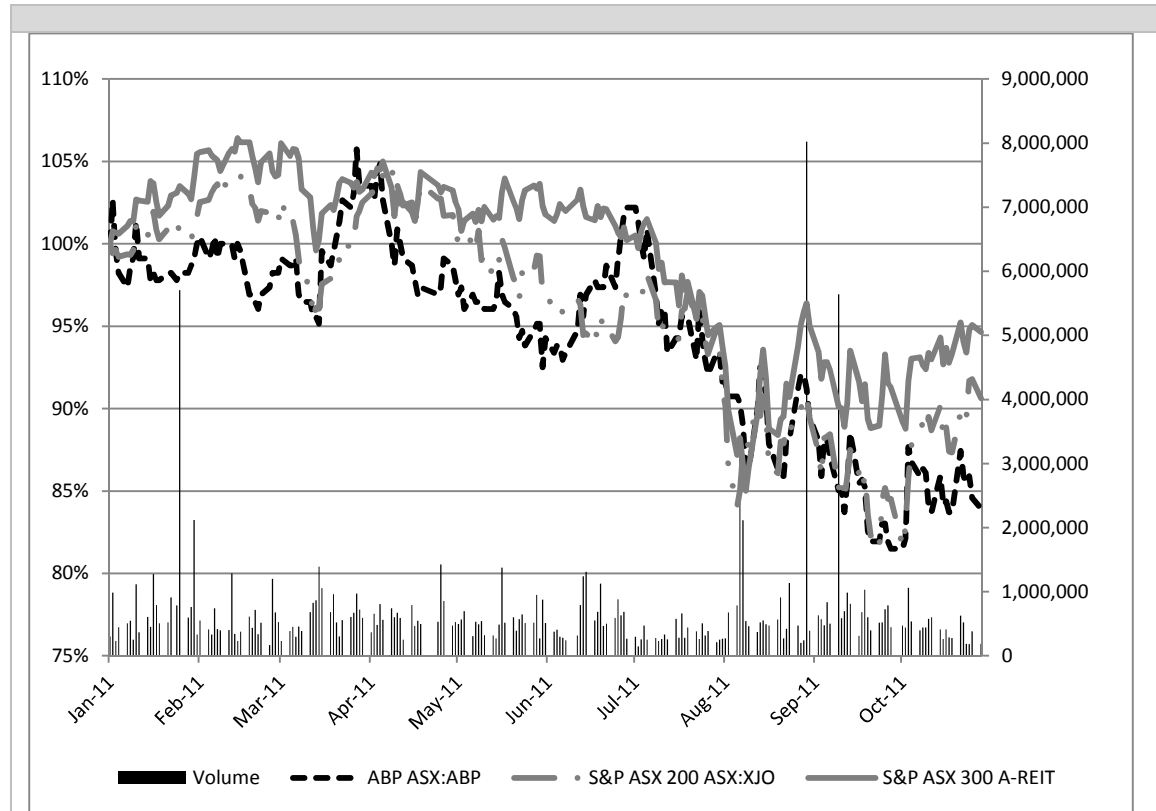
Table 42 – ABP Market sensitive announcement

Date	Chart ref	Announcement details
20 January 2009	A	ABP announced the completion of a \$24.4 million private placement to Kirsh and a \$187 million rights issue that Kirsh sub-underwrote. The capital raised was used to reduce gearing and allow ABP to capitalise on acquisition opportunities.
3 April 2009	B	ABP received a development approval from the NSW Land and Environment Court to expand its Ashfield Mall property, a sub-regional shopping centre located 10 km from the Sydney CBD in the inner south-western suburb of Ashfield
27 August 2009	C	ABP published its annual results and delivered a strong result in difficult market conditions with underlying profits at \$72.0 million and underlying earnings per security of 8.30 cps.
1 July 2010	D	Increase in substantial holding by Calculator Australia Pty Limited
8 July 2010	D	Market speculation regarding potential sale of an office building at 343 George Street, Sydney
31 January 2011	E	Increase in substantial holding by Calculator Australia Pty Limited

Source: Thompson Reuters; ABP announcements to ASX

More recently, with the increasing concern regarding European indebtedness and economic growth around the world, ASX listed share prices generally have declined and ABP has underperformed both the ASX 200 Index and ASX A-REIT Index over the period 4 January 2011 to 31 October 2011.

Figure 2 – ABP Security price vs. S&P ASX & S&P A-REIT- 4 January 2011 to 31 October 2011



Source: Thompson Reuters

11.12.1 Volume weighted average trading prices

The table below sets out details of the ASX trading in the ABP Securities during the 12 months to 31 October 2011, including the volume weighted average trading prices ("VWAP") for the respective periods.

Table 43 – ABP Securities trading summary

Period	Low \$	High \$	VWAP \$	% shares traded
As at 31 October 2011	1.89	1.93	1.91	0.05%
1 week to 31 October 2011	1.89	1.99	1.94	0.4%
1 month to 31 October 2011	1.78	2.03	1.93	2.4%
3 months to 31 October 2011	1.78	2.15	1.98	13.3%
6 months to 31 October 2011	1.78	2.34	2.06	21.9%
12 months to 31 October 2011	1.78	2.45	2.15	43.1%

Source: Capital IQ

For the purposes of this Report, we have adopted a value for an ABP Security (on a minority interest basis) in the range of \$1.90 to \$2.00.

11.12.2 Liquidity analysis

The table below sets out details of ABP Securities' trading liquidity during the 12 months to 31 October 2011:

Table 44 – ABP Security Trading Liquidity Summary

Period	Total volume '000	Total value \$'000	Turnover	Turnover Annualised	Average Bid / Ask spread
As at 31 October 2011	188	358	0.1%	nm	2.1%
1 month to 31 October 2011	8,985	17,327	2.4%	28.8%	2.7%
3 months to 31 October 2011	50,311	96,753	13.3%	53.2%	2.7%
6 months to 31 October 2011	82,815	163,423	21.9%	43.8%	2.2%
12 months to 31 October 2011	163,424	315,661	43.6%	43.6%	1.9%

Source: Capital IQ

nm: not meaningful

We note the following with respect to the liquidity of ABP Securities during the 12 months to 31 October 2011:

- total volume traded over the month of October 2011 was at a lower annual rate than the 3, 6 and 12 month measures;
- during the twelve months to 31 October 2011, the average bid/ ask spread was 1.9%, while in the one month and 3 months to 31 October 2011 the average bid-ask spread was 2.7%. The 6 month measure was 2.2%; and
- the top 20 securityholders hold a relatively large portion of the total number of Securities. As at 22 August 2010, the top 20 securityholders held 77.67% of total issued securities.

We compared the stock turnover rate and the average bid/ ask spread of the following entities comparable to ABP.

Table 45 – Comparable Security Trading Liquidity Summary 12 months to 31 October 2011

Company Name	Turnover %	Average bid / ask spread %	Market capitalisation \$m
APN Property Group	6.5%	8.5%	25
Aspen Group	43.1%	2.1%	240
Australand Holdings	38.1%	1.6%	1,500
Centuria Capital	10.9%	3.7%	41
Challenger Diversified Property Group	25.1%	2.1%	461
Charter Hall Group	84.6%	3.2%	579
Charter Hall Office REIT	152.3%	1.5%	1,677
Charter Hall Retail REIT	101.2%	2.1%	980
Commonwealth Property Office Fund	147.9%	0.7%	2,286
Cromwell Property Group	13.1%	1.5%	662
Dexus Property Group	124.3%	0.8%	4,113
FKP	73.9%	1.9%	593
GPT Group	119.6%	1.0%	5,783
Growthpoint Properties Australia	5.4%	2.0%	560
Investa Office Fund	136.0%	1.0%	1,617
Mirvac Group	125.3%	1.0%	4,288
Peet	10.6%	3.7%	391
Stockland Corp.	117.6%	0.9%	7,372
Trafalgar Corporate Group	13.2%	2.8%	60
Trinity Group	47.3%	5.2%	39
Valad Property Group (Note 1)	257.3%	1.4%	250.4
Villa World Group	56.2%	3.1%	59
Westfield Retail Trust	94.1%	0.8%	7,788
Average – Simple (Note 2)	70.4%	2.3%	
Average – Market capitalisation weighted (Note 2)	108.4%	1.1%	
Abacus Property Group	43.6%	1.9%	737

Source: Capital IQ; LCF analysis

Notes:

- 1 Market capitalisation is mid-point value of independent expert report valuation in relation to successful takeover offer from affiliates of Blackstone Real Estate Advisers L.L.C.
- 2 Excluding Valad Property Group, as it was subject to a takeover offer during the period.

We note that 43% of ABP's issued capital traded in the 12 month period ended 31 October 2011 with an average bid/ ask spread over the period of 1.9%. The listed stocks analysed traded a market capitalisation weighted average turnover of 108% with an average bid/ ask spread over the period of 1.1%. However, there was a range of measures and ABP was by no means the lowest in terms of turnover or the highest in terms of average bid/ ask spread over the period. While ABP's measures are below / above the market capitalisation-weighted average of the listed stocks analysed in Table 45, in our opinion, they remain within a range where the stock can be considered liquid.

Due to the relatively high proportion of ABP Securities held by the top 20 shareholders, and in particular, held by Kirsh, we performed a free float analysis (as presented below) in which the shares held by Kirsh were excluded from the issued capital to calculate a free float turnover rate.

Table 46 – Free float turnover - 12 month's period to 31 October 2011

Item	Amount
Issued Capital at 30 September 2011 (in '000s)	386,751,712
Kirsh - ABP Securities held	151,633,165
Free float issued capital	235,118,547
Total volume over the 12 months to 31 October 2011 (in '000s)	163,424,000
Free float turnover	69.5%

Source: Capital IQ; ASX announcements; LCF analysis.

The free float turnover over the 12 months period to 31 October 2011 of 69% is near the simple average of the turnover of the listed entities analysed in Table 45 (of 70.4%).

We also considered the free float turnover over the 12 months to 31 December 2009 and 2010 and 10 months to 31 October 2011 (both actual and annualised) as follows:

Table 47 – Free float turnover - 12 months to 31 December 2009 and 2010 and year-to-date CY2011

Period	Annual Volume as % free float	
	to 31 Oct	Annual
CY2009		126%
CY2010		86%
CY2011 (10 months to 31 October)	58%	70%

Source: Capital IQ; ASX announcements; LCF analysis.

In our opinion, the liquidity of ABP's securities as traded on the ASX is reasonable and therefore the market price may be used as an indication of fair market value of an ABP Security for a minority interest holder.

11.12.3 Premium/(Discount) to net tangible assts

Set out below is an analysis of the premium/(discount) to net assets at which a selection of comparable A-REITs were trading at as at 31 October 2011.

Table 48 – Price to NTA Premium/ (Discount) for a range of A-REITs at 30 June 2011

Company Name	Note	NTA at 30 June 2011 \$	Close price at 31 October 2011 \$	Premium / (Discount) %
FKP Limited		1.25	0.50	(60%)
Villa World Group		1.78	0.74	(58%)
Aspen Group		0.67	0.41	(39%)
Valad Property Group	1	2.69	1.75	(35%)
Abacus Property Group		2.76	1.91	(31%)
Trinity Group		0.29	0.20	(30%)
APN Property Group Limited		0.22	0.16	(27%)
Australand Holdings Limited		3.52	2.60	(26%)
Challenger Diversified Property Group		0.68	0.52	(23%)
Mirvac Group		1.62	1.26	(22%)
Westfield Retail Trust		3.21	2.55	(21%)
Commonwealth Property Office Fund		1.11	0.93	(16%)
Dexus Property Group	2	1.01	0.85	(16%)
GPT Group		3.72	3.15	(15%)
Investa Office Fund		0.73	0.63	(14%)
Stockland Corp. Limited.		3.65	3.16	(13%)
Charter Hall Group		2.21	1.96	(11%)
Peet Limited	3	1.37	1.22	(11%)
Charter Hall Office REIT		3.76	3.40	(10%)
Charter Hall Retail REIT		3.54	3.27	(8%)
Growthpoint Properties Australia		2.01	1.92	(5%)
Centuria Capital Limited	4	0.46	0.50	nm
Trafalgar Corporate Group Limited.	5	(0.05)	0.71	nm
Cromwell Property Group	6	0.01	0.69	nm

Source: Capital IQ and LCF analysis.

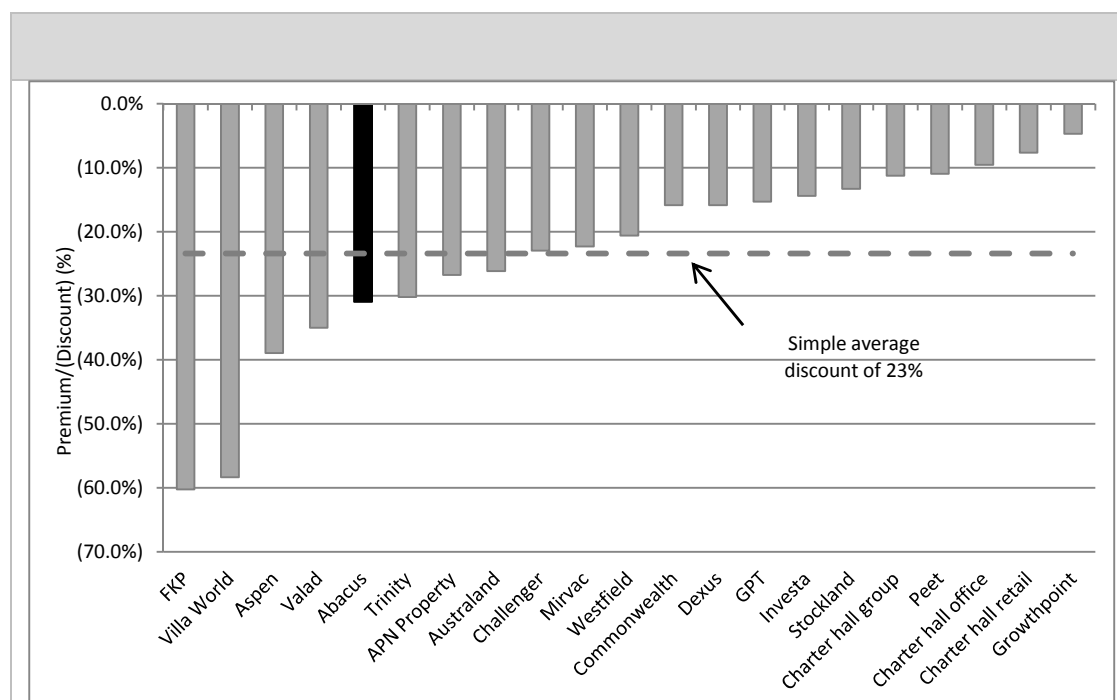
nm: not meaningful

Notes

- Before takeover on 27 April 2011, Valad was trading at circa 50% discount to NTA.
- Dexus Property Group price to NTA is \$0.34 based on statutory accounts and \$1.01 as reported by the entity. Consequently Dexus Property is trading at a 16% discount to NTA.
- Peet Limited NTA is \$0.81 based on statutory accounts that does not include a value attributed to the Company's funds management business. Peet reports NTA of \$1.37 including a value attributed to the Company's fund management business (as reported by the entity). If the higher NTA of \$1.37 is used, Peet is trading on a 10.9% discount to the higher NTA. If the lower NTA of \$0.81 is used, Peet is trading on a 51% premium.
- Centuria Capital Limited: 71.5% of net profit is generated by funds management, insurance and reverse mortgage activities and 28.5% relate to the property investment activity. Therefore, the measure of the share price as a discount/premium to NTA is not meaningful as the company provides services rather than holds assets.
- Trafalgar Corporate Group Limited has negative NTA, which causes the measure of the share price as a discount/premium to NTA to be not meaningful.
- Like Centuria Capital Limited, the earnings of Cromwell Property Group largely arise from management operations. Therefore, the measure of the share price as a discount/premium to NTA is not meaningful as the company provides services rather than holds assets.

The above information is set out graphically below.

Figure 3 – Price to NTA Premium/ (Discount) for a range of A-REITs



Source: Capital IQ and LCF analysis.

Overall, the A-REIT sector is trading at a significant discount to NTAs. The selected comparable entities in the above analysis are trading at a simple average discount of around 23%. ABP is trading at a discount to NTA of approximately 30.8%.

A-REITs have undergone a transformation since the GFC. Generally speaking, those with the ability to do so have significantly restructured their balance sheets by reducing debt and changing their business models and activities with many reverting to a traditional rent-collecting model. The return to a more conservative, domestic model is seen as positive for the sector.

Lower risk structures, earnings growth and greater certainty of capital appreciation should attract new investors. This in turn should bolster the trading price of A-REITs over time and reduce the levels of discount currently seen.

12 Profile of ASF

12.1 Overview

ASF is an unlisted, stapled entity that is one of the largest participants in the Australasian self-storage industry. ASF owns a diversified portfolio of 41 self storage facilities with 30 in Australia and 11 in New Zealand and one small commercial property, with a total value as at 30 June 2011 of approximately \$332 million.

Day-to-day management of the storage facilities is outsourced to Storage King, one of Australasia's largest self storage operators and the ASF storage facilities are branded as Storage King Facilities.

ASF's investment strategy is to accumulate storage facilities in Australia and New Zealand. ASF does not invest in any unlisted property schemes.

The business of the ASF storage facilities consists of usually short-term rental of storage space. Generally speaking, there are no long, fixed-term leases with lessees, with agreed rent reviews and terms such as caps and collars or minimum rental increases, such as might be found in commercial or industrial property leases. Therefore, the ASF property income potentially is subject to short-term fluctuation and has a degree of business risk.

12.2 Structure

ASF is made up of stapled securities comprising one unit in Abacus Storage Property Trust ("**ASPT**") and one share in Abacus Storage Operations Limited ("**ASOL**"). ASF does not have any employees and is externally managed by ASFML which is the Responsible Entity for ASPT. ASFML is ultimately wholly-owned by ABP.

12.3 Background

ASF was launched in November 2005 via a prospectus and product disclosure document ("**2005 Offer Document**"). The offer price of the securities was \$1.00 each. The initial portfolio comprised 16 storage facilities in Australia and New Zealand and \$100m in total assets.

In December 2008, ASF acquired from ABP for a purchase price of \$82.5m a portfolio of assets ("**Additional Assets**") comprising:

- seven storage facilities in Queensland;
- one storage facility in Hamilton, New Zealand; and
- approximately 86% of the shares in USI, an unlisted public company that owned 3 storage facilities in Canberra and three commercial properties. Subsequently, ASF moved to full ownership of USI.

A prospectus and product disclosure document ("**2008 Offer Document**") was issued by ASF to raise the \$37 million of equity required to repay the ASF AWCF (a loan (termed the Abacus Working Capital Facility) advanced to ASF by ABP to partially fund the acquisition of the Additional Assets).

12.4 Directors

The Directors and Company Secretary of ASOL and ASFML are as set out below. Details have been set out in Section 11.6.

John Thame	Chairman
Frank Wolf	Managing Director
David Bastian	Non-executive Director
Malcolm Irving	Non-executive Director
Len Lloyd	Director
Myra Salkinder	Non-executive Director
Ellis Varejes	Company Secretary

12.5 Management

ASF is managed by ASFML and does not employ any staff directly. ASFML and AFML have a number of staff that manage various unlisted property funds on behalf of retail investors.

12.6 Storage King role

ASF has outsourced the day-to-day management of all the storage facilities to Storage King. Storage King was established in 1998 and is one of the largest self-storage operations in Australasia. Storage King has a network of approximately 120 self-storage facilities, some of which are franchised and some of which are managed on behalf of other owners.

Storage King is required to oversee and promote the storage business operated at each site. These services include recruiting, training and supervising staff, setting charges to customers, maintaining the property, marketing and preparing performance reports.

12.6.1 Storage King management fees

ASF and Storage King have entered into a number of agreements regulating their arrangements.

Relationship Deed

A Relationship Deed entered into between Storage King, ASF and certain key Storage King personnel operates as a framework agreement regulating the parties' relationship and the various underlying management and licensing agreements.

Specialised Management and Support Services Agreement

The original 30 assets held ("**Existing Assets**") before the acquisition of additional storage assets from ABP in late 2008 (i.e. the Additional Assets) had a management and branding arrangement with Storage King which expired in May 2010 and which the parties agreed to extend for a further five years (to May 2015) on the same terms.

This agreement governs the provision by Storage King of management and support services in respect of the day-to-day management of the self storage business at each of the Existing Assets.

Key services provided by Storage King under this agreement include:

- site selection and feasibility;
- facility set-up;
- facility presentation;
- recruitment, training and supervision of facility management and staff;

- customer service procedures;
- pricing;
- preparation of operating budgets and management accounts;
- cash management;
- debtors management;
- insurance;
- information technology systems;
- all day-to-day administration and operational issues; and
- quarterly facility reports;
- specialist advice and assistance with capital improvements and facility expansion projects.

Storage King is the employer of the staff that work at each of the ASF's facilities.

In relation to the Existing Assets, Storage King is paid for its services as follows:

- for licensing the "Storage King" name - the greater of 3.5% of gross monthly receipts or \$1,500 per month per site; and
- for managing the self storage facilities - the greater of 3.5% of gross monthly receipts or \$2,000 per month per site.

Under the Relationship Deed, it was agreed that Storage King would reduce 100% of the 3.5% management fee during FY2009 and FY2010 in order to support the forecast distributions of ASF set out in the 2008 Offer Document.

After 1 July 2010, Storage King can only increase its management fee up to a maximum of 3.5% of gross receipts on the Existing Assets if the distributions per ASF Security in that financial year are at least equal to the distributions in the prior financial year plus the greater of CPI or 3%. It is noted that the distributions per ASF Security in FY2011 equalled the distributions in FY2010.

To the extent that management fees are less than 3.5% of gross receipts on the Existing Assets for Storage King, these can be recouped in the future as described below.

Reduced management fees may be recouped in a later year, either in cash or as ASF Securities, subject to certain conditions, including if in any financial year ASF's net asset value increases by more than 5% pa compounding from 1 October 2008.

It is noted that only 50% of the increase in net assets above the 5% threshold will be applied to payment of ASFML and Storage King reduced management fees. ASFML has agreed with Storage King that ASFML may recoup its reduced fees ahead of Storage King.

The historical management fees paid to Storage King have been as follows:

Table 49 – Total management fees paid to Storage King

Year ended 30 June	2011	2010	2009
\$'000			
License and retainer fees	1,486	1,432	1,128

Source: ASFML.

12.6.2 Reduced Storage King Management fees

Total reduced management fees potentially recoupable by Storage King were approximately \$4.4m as at 30 June 2011.

The pro-forma balance sheet of the ASF as at 1 October 2008 as set out in the 2008 Offer Document indicated that the pro-forma net assets of ASF as at 1 October 2008 were \$133.2 million (before outside equity interests of \$5.3 million) and net asset value per security (fully diluted) was \$1.18.

On this basis, the compound annual growth of 5% pa from 1 October 2008 to 30 June 2013 required to allow recoupment of reduced management fees would require ASF's net asset value per security to increase as follows:

Table 50 – ASF's required growth in net asset value per security to allow recoupment of reduced management fees

As at	30-Jun-13	30-Jun-12	30-Jun-11	30-Jun-10	30-Jun-09	30-Sep-08
NAV per security (fully diluted) hurdle (\$)	1.49	1.42	1.35	1.29	1.22	1.18
NAV diluted (actual) (\$)	na	na	1.29	1.19	1.15	na

Source: LCF analysis.

Based on the above analysis, in our opinion it is unlikely that payment of any Storage King reduced management fees will be made in the foreseeable future.

ASFML advised that no payment of Storage King reduced management fees was made in FY2011.

12.6.3 Other Management Agreements

The arrangements regarding the management of the Additional Assets are regulated by management agreements at a facility or portfolio level. The management of the five Townsville assets is regulated by one management agreement and the management of the U Stow It assets is regulated by another agreement. These agreements contain terms that are substantially the same as those contained in the Specialised Management and Support Services Agreement, except that the fee arrangements are slightly different.

Townsville, Brisbane, Hamilton facilities

In relation to these facilities Storage King is paid for its services as follows:

- 3.5% of gross receipts from each facility for the licensing of the Storage King name and trademark; and
- management fee in respect of the Additional Assets comprises a base fee of 1.5% of gross receipts from each facility and a performance related fee of 2% of gross receipts. The payment of the performance fee is dependent upon Storage King meeting certain profitability thresholds determined for each facility.

The initial term of the agreements run for a period of five years until various months-October 2012, March 2013 and June 2013. The agreements will be extended for a further period of 5 years, unless a party otherwise determines.

USI facilities

Storage King manages the three USI self storage facilities. Initially the storage facilities were not branded as "Storage King", given the strong existing presence of the "U-Stow-It" brand in the Canberra market. However, the USI self storage facilities have now been rebranded as "Storage King" and the fee arrangements have been amended to be 4% of gross revenue – a combined licensing and management fee.

Storage King is paid a licensing fee with a performance fee of 10% of any surplus above a target EBITDA if, EBITDA targets set out in the agreement are met.

The initial term of the agreement runs for a period of five years from 1 July 2008 until end June 2013.

All Additional Assets

Storage King is entitled to charge a capital works fee of 2.5% of works to a maximum of \$25,000 when managing expansion projects at any of the Additional Assets.

All Assets

Storage King is entitled to:

- a Sales Management Fee equal to 0.75% of the net sale price, payable on disposal of a facility by ASF. This fee is not payable if after payment of the sales management fee the net sale price is less than the adjusted purchase price of the property; and
- 50% of any performance fee payable to ABP upon a sale of a self storage facility or listing of ASF, if charged.

12.6.4 Termination

The RE can terminate the arrangements with Storage King under specified circumstances, provided they are paid an amount equivalent to the service fees paid to Storage King in the 12 months preceding the month in which the agreements are terminated.

It is possible that the RE may wish to terminate the arrangements with Storage King if, for example, ASF or parts of its portfolio of facilities was to be acquired by a local trade buyer such as an existing competitor, as it is considered unlikely that they would want to maintain Storage King branding or operational management, as they would wish to substitute their own.

The audited FY2011 statutory accounts show amounts paid to Storage King for service fees across the portfolio of \$1.486m for that year.

It is noted that a management fee was not paid on the Existing Assets FY2011; only the license fee entitlement was paid. The management fee was reduced in accordance with clause 4 of the Relationship Deed that requires Storage King to reduce fees on the Existing Assets in order to pay distributions to ASF Securityholders.

12.7 ASFML management fees

ASFML provides management and investment accounting services to ASF. ASFML's role as manager includes:

- trust administration;
- payment of distributions;
- investor communications;
- regulatory compliance; and
- arrangement of debt facilities.

Under the terms of the Constitution, ASFML as the Responsible Entity is entitled to receive a management fee of 0.85% of the total gross assets of ASF. Under the Constitution, ASFML may waive, reduce or postpone the receipt of any fee (or any part of a fee) or charge a lesser fee than ASFML is entitled to receive under the Constitution. ASFML may recover any fees waived, reduced or postponed in a later year.

In accordance with the 2008 Offer Document, the actual management fee charged in FY2009 and FY2010 was 0.425%. The 0.425% fee that was not charged may be recouped in future years or from a Liquidity Event, as described below.

After 1 July 2010, ASFML will only increase its management fee up to a maximum of 0.85% of gross assets if the distributions to ASF Securityholders in that financial year are at least equal to the distribution in the prior financial year plus the greater of CPI or 3%.

The actual management fee charged in FY2011 also was only 0.425%. The 0.425% fee that was not charged in FY2011 also may be recouped in future years or from a Liquidity Event, as described below.

Total fees paid to the Responsible Entity for management of ASF have been as follows:

Table 51 – Total management fees paid to the Responsible Entity

Year ended 30 June	2011	2010	2009
\$'000			
RE Management fee - expense	1,399	1,372	1,196

Source: ASF Annual Reports for FY2011 & FY2010.

12.7.1 Reduced ASFML Management fees

ASFML agreed to reduce a proportion of its management fee in FY2009, FY2010 and FY2011 to support the forecast distributions to ASF Securityholders. Similarly to the Storage King reduced management fees, the reduced ASFML management fees may be recouped in a later year, either in cash or as ASF Securities, subject to certain conditions, including if the net assets of ASF have increased by more than 5%pa from 1 October 2008.

As previously noted, only 50% of the increase in net assets above the 5% threshold will be applied to payment of ASFML and Storage King reduced management fees. ASFML has agreed with Storage King that ASFML may recoup its reduced fees ahead of Storage King.

The total reduced management fees potentially recoupable by ASFML as at 30 June 2011 were approximately \$5.3m.

We noted above in the discussion regarding the reduced Storage King management fees that in the period to 30 June 2011 the net assets of ASF have not grown sufficiently to trigger the right to payment of any reduced management fees.

ASFML advised that no payment of either ASF or Storage King reduced management fees was made in FY2011.

12.7.2 Sales management fee

Each of ASFML and Storage King is entitled to a sales management fee equal to 0.75% of the net sale price, payable on disposal of a property. This fee is not payable if after payment of the sales management fee if the net sale price (i.e. the sale price of the facility less any fees and costs associated with the sale) is less than the adjusted purchase price of the property (i.e. the aggregate of the purchase price plus any amount of capital expenditure and sales management fee related to the facility).

12.7.3 Performance fee

In addition to any sales management fee, a performance fee may be payable to ASFML in the event of the sale of any asset of ASF, including via a listing of ASF. The performance bonus will be equal to 10% of the difference between the net sale price (after deduction of all selling expenses) of the asset and its total acquisition cost (being the purchase price plus stamp duty and all other acquisition expenses).

A performance fee will also be payable on listing of ASF if the aggregate value of the assets of ASF exceeds the sum of the total acquisition costs of those assets. This performance bonus will be equal to 10% of the difference between the aggregate value of the assets and their total acquisition costs.

The performance fee may be paid in cash, ASF Securities, assets or any combination of these. Storage King is entitled to 50% of the performance fee charged by ASFML, if any is charged.

12.7.4 Equity raising fee

The Constitution of ASF allows for a capital raising fee to be paid to ASFML of an amount of 0.75% of equity raised in respect of a capital raising. In addition, fees may be paid to persons procuring subscriptions or agreeing to subscribe for equity and for underwriting fees and commissions and legal expenses.

Under the 2008 Offer Document, ASF indicated that it would pay an equity raising fee to a maximum of 3.75% plus applicable GST (3.844% including irrecoverable GST) of the subscription price of ASF Securities, as follows:

- a sales fee of 3% plus GST of the equity raised to eligible brokers and financial advisers who place funds pursuant to the 2008 Offer Document; and
- an equity raising fee of 0.75% plus GST to ASFML.

12.7.5 ABP Property Services Management Fee

ABP Property Services Pty Limited ("**APS**") may be appointed to manage and let all of the property assets owned by ASF that are not managed by Storage King. If appointed, APS will receive a fee from ASF of up to 3% per annum of the gross rental income for these services. Currently all self storage assets are managed by Storage King and the only property managed by APS is the one remaining commercial property in the Australian Capital Territory.

12.7.6 Termination

ASFML can retire or be removed and replaced with another appropriately licensed company if ASF Securityholders pass an extraordinary resolution (if the scheme is not listed) to that effect at a properly convened meeting of ASF Securityholders. An "extraordinary resolution", in relation to a registered scheme, means a resolution of which proper notice has been given and that has been passed by at least 50% of the total votes that may be cast by members entitled to vote on the resolution (including members who are not present in person or by proxy).

If such a resolution is successful, ASFML will be entitled to recover any unpaid fees due to it.

12.8 Income Statements

12.8.1 Overview

The statutory consolidated income statements of ASF for FY2009, FY2010 and FY2011, are presented in the table below:

Table 52 – ASF Statutory Income Statements

Year ended 30 June	2011	2010	2009
\$'000			
Revenue			
Rental income	36,607	35,498	28,742
Finance income	105	54	76
Merchandising income	3,458	2,974	2,661
Gain on disposal of investment property	71	0	0
Net change in fair value of investment properties	16,477	3,628	0
Net change in fair value of financial instruments derecognised	469	0	0
Insurance recoveries	1,025	0	0
Total Revenue and Other Income	58,212	42,154	31,479
Expenses			
Operating expenses	(7,215)	(6,915)	(5,866)
Management and supervision fees	(5,302)	(5,090)	(4,158)
Responsible entity fees	(1,399)	(1,372)	(1,196)
License and retainer fees	(1,486)	(1,432)	(1,128)
Depreciation expense	(271)	(332)	(366)
Net change in fair value of investment properties	0	0	(3,939)
Net change in fair value of derivatives	(1,341)	1,936	(8,752)
Finance costs			
- Amortisation of finance costs	(956)	(278)	(219)
- Interest on bank loans	(13,939)	(13,086)	(11,186)
- Interest on related party loan	(2,414)	(2,124)	(1,125)
Other expenses	(627)	(422)	(656)
Total expenses	(34,950)	(29,115)	(38,591)
Profit/(Loss) Before Tax	23,262	13,039	(7,112)
Income tax benefit / (expense)	(3,327)	(2,219)	(1,120)
Profit/(Loss) After Tax	19,935	10,820	(8,232)
Other Comprehensive Income			
Foreign exchange translation adjustments, net of tax	(554)	84	294
Total Comprehensive Income	19,381	10,904	(7,938)
Statement of Distribution			
Net profit attributable to ASF Securityholders	19,935	10,820	(8,232)
Transfer from/ (to) retained earnings	(12,302)	(3,316)	14,955
Distributions paid and payable	7,633	7,504	6,723
Distribution per ASF Security (cents)	8.75	8.75	8.50
Weighted average number of ASF Securities ('000)	87,229	85,386	78,691

Source: ASF annual Reports FY2011, 2010 & 2009.

Year ended 30 June	2011	2010	2009
\$'000			
Analysis			
Rental income growth (% pa)	3.1%	23.5%	21.6%
Operating expenses growth (% pa)	4.3%	17.9%	21.9%
Indirect cost ratio (%)	1.27%	1.30%	1.31%
RE Management fee - entitlement (% total assets)	0.85%	0.85%	0.85%
RE Management fee - charged (% total assets)	0.425%	0.425%	0.425%
RE Management fee - expense	1,399	1,372	1,196
Storage King management fee - expense	1,486	1,432	1,128

Source: ASF annual Reports FY2011, 2010 & 2009.

We note the following in relation to the income statements of ASF:

- rental income growth was 3.1% in FY2011. In FY2009, the Additional Assets had only been owned for approximately 6 months and FY2010 was the first financial year in which the Additional Assets had been owned for full 12 months;
- operating expenses growth was 4.3% in FY2011. However, the indirect cost ratio remains reasonably consistent at approximately 1.3%;
- occupancy levels have been relatively steady – further details on occupancy levels are set in Section 12.9.1 below;
- net gains on investment have arisen from investment property revaluations – refer to Section 12.9.2 below; and
- interest on loans has been stable, reflecting the fact that there has been minimal change in borrowing levels.

12.8.2 Underlying income

Estimates of the net underlying income (meaning that amount of net income which is likely to recur in the future and excludes one-off items of income or expense) of ASF for FY2009, FY2010 and FY2011, are presented in the table below:

Table 53 – Estimated ASF Underlying Income

Year ended 30 June	2011	2010	2009
\$'000			
Underlying Income			
Profit/ (loss) after tax	19,935	10,820	(8,232)
Add back/ (deduct):			
- DTL movement	2,247	1,047	702
- Unrealised (gains)/ losses on interest rate swaps	1,341	(1,936)	8,752
- Net unrealised (gains)/ losses on investments	(16,477)	(3,628)	3,939
- Gain on disposal of investment property	(71)	0	0
Underlying Income after tax	6,975	6,303	5,161

Source: ABP, ASF annual Reports FY2011, FY2010 & FY2009.

12.9 Statements of financial position

The audited consolidated statements of financial position of ASF as at 30 June 2009, 2010 and 2011 and 31 December 2009 and 2010 are presented in the table below.

Table 54 – ASF Statements of financial position

As at \$'000	30-Jun 2011	31-Dec 2010	30-Jun 2010	31-Dec 2009	30-Jun 2009
Current assets					
Cash and cash equivalents	3,982	4,157	3,414	2,901	3,014
Trade and other receivables	713	696	778	839	793
Income tax receivable	0	0	316	0	0
Investment properties	0	0	3,300	0	2,400
Prepayments and other assets	265	587	975	1,549	1,602
Total Current assets	4,960	5,440	8,783	5,289	7,809
Non-Current assets					
Property, plant and equipment	810	865	830	974	956
Investment properties	331,133	325,313	315,764	316,576	311,863
Deferred tax assets	0	180	123	992	987
Derivatives at fair value	0	703	0	0	0
Goodwill	0	0	0	159	6,578
Total Non-Current assets	331,943	327,061	316,717	318,701	320,384
Total assets	336,903	332,501	325,500	323,990	328,193
Current Liabilities					
Trade and other payables	3,949	4,470	3,723	4,010	4,281
Interest-bearing borrowings	0	0	133,624	133,642	0
Interest-bearing borrowings-ASF AWCF	0	448	664	2,510	8,895
Derivatives at fair value	109	0	824	1,522	0
Income tax payable	424	345	0	0	242
Distribution payable	1,909	1,908	1,907	1,878	1,793
Total Current Liabilities	6,391	7,171	140,742	143,562	15,211
Non-Current Liabilities					
Interest-bearing loans and borrowings (Note 1)	176,070	178,701	50,569	50,545	180,275
Interest-bearing borrowings-related party-other	5,215	0	0	0	0
Interest-bearing borrowings-related party-ASF AWCF	28,316	29,132	27,115	24,306	20,755
Derivatives at fair value	822	0	1,319	934	4,097
Deferred tax liabilities	4,329	3,838	2,102	2,012	7,227
Other payables	242	242	0	0	0
Total Non-Current Liabilities	214,994	211,913	81,105	77,797	212,354
Total Liabilities	221,385	219,084	221,847	221,359	227,565
Net Assets	115,518	113,417	103,653	102,631	100,628
Equity attributable to external non-controlling interest					
Contributed equity	0	0	0	0	5,628
Retained earnings	0	0	0	0	420
Total equity - external non-controlling interest	0	0	0	0	6,048

As at \$'000	30-Jun 2011	31-Dec 2010	30-Jun 2010	31-Dec 2009	30-Jun 2009
Equity attributable to ASF Securityholders					
Contributed equity	82,977	82,915	82,860	81,721	77,185
Foreign currency translation reserve	(2,543)	(2,827)	(1,989)	(2,028)	(2,073)
Retained earnings / (accumulated losses)	35,084	33,329	22,782	22,938	19,468
Total Equity	115,518	113,417	103,653	102,631	100,628
Analysis					
Gearing (Interest bearing debt: total assets) (including ASF AWCF)	62.2%	62.6%	65.1%	65.1%	64.0%
Gearing (Interest bearing debt: total assets) (excluding ASF AWCF)	53.8%	53.7%	56.6%	56.8%	54.9%
Net debt Gearing (Interest bearing debt less (cash less Distribution payable): total assets less (cash less Distribution payable) (including ASF AWCF)	62.0%	62.4%	65.0%	65.0%	63.8%
Net debt Gearing (Interest bearing debt less (cash: less Distribution payable): total assets less (cash less Distribution payable) (excluding ASF AWCF)	53.5%	53.4%	56.4%	56.7%	54.8%
Bank LVR ((Interest bearing debt : total investment properties, including PP&E) (excluding ASF AWCF)	53.6%	54.8%	58.2%	58.0%	57.6%
Net assets	115,518	113,417	103,653	102,631	100,628
- annual growth	11.4%		3.0%		(3.4)%
Net tangible assets	115,518	113,417	103,653	102,472	94,050
- annual growth	11.4%		10.2%		(9.7)%
Securities on issue (period end securities on issue)	87,276	87,224	87,172	85,854	81,944
Weighted average securities on issue	87,229	87,202	85,386	83,584	78,691
NA per security (period end securities on issue)	1.324	1.300	1.189	1.195	1.228
NTA per security (period end securities on issue)	1.324	1.300	1.189	1.194	1.148
Growth (% pa)					
- NA per security (period end securities on issue)	11.3%	8.8%	(3.2)%		
- NTA per security (period end securities on issue)	11.3%	8.9%	3.6%		
Pro-forma securities on issue (period end securities on issue)	111,272				
Pro-forma net asset value per security (period end securities on issue)	1.293				

Source: ASF annual Reports FY2011, 2010 & 2009 and half year reports for 31 December 2010 and 2009.

Notes:

- 1** Interest-bearing loans and borrowings shown net of unamortised borrowing costs asset.
- 2** ASF AWCF is excluded in calculating net debt gearing ratios for bank facility purposes.

As noted from the above table, a number of the key ratios have been fairly stable. However, we note the following in relation to ASF financial position:

- a liability for dividend or distribution is recognised in the Statement of Financial Position as at 30 June 2011 as the dividend or distribution was declared, determined or publicly recommended prior to balance date;
- deferred tax assets and liabilities are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except in certain circumstances (refer sub-paragraph immediately below);

- ABP advised that the deferred tax liabilities mostly relate to the fair value gain on revaluation of U-Stow-It properties (\$4.0m of the \$4.3m) because they are held in a company rather than a trust structure;
- ASF is exposed to currency risk on its investment in foreign operations in New Zealand. As a result ASF balance sheets can be affected by movements in the A\$/NZ\$ exchange rate. ASF borrows loan funds in NZ\$ to substantially match the foreign currency property asset value exposure with a corresponding foreign currency liability which mitigates foreign currency risk on its New Zealand denominated asset values; and
- at 30 June 2011, ASF had a net current asset deficiency of \$1.4m (2010: deficiency of \$132.0m). ASF has obtained a letter of support from ABP that to the extent necessary ABP intends to provide financial support to enable ASF to pay its debts as and when they fall due.

The calculation of the Pro-forma securities on issue (period end securities on issue) allows for the conversion of the ASF AWCF in accordance with its terms, as at 30 June 2011. This calculation is as follows:

Table 55 – Pro-forma securities on issue as at 30 June 2011 after conversion of ASF AWCF

Conversion of ASF AWCF to ASF Securities		
Balance of ASF AWCF as at 30 June 2011	\$'000	28,316
Accrued interest as at 30 June 2011	\$'000	353
Total	\$'000	28,669
Issue price of an ASF Security for these purposes	\$	1.19
Number of ASF Securities into which the ASF AWCF converts	'000	23,997
Existing ASF Securities as at 30 June 2011	'000	87,276
ASF Securities into which the ASF AWCF converts	'000	23,997
Pro-forma securities on issue (period end securities on issue)	'000	111,367

Source: ASF AWCF documentation; LCF analysis.

12.9.1 Property Portfolio

There has been no material change to the portfolio compared to that presented in the 2008 Offer Document. During the December 2010 half year, a small industrial property in Hume, ACT was sold for \$3.4m.

The weighted average lease expiry of ASF is not a relevant metric because most users of the self storage facilities pay on a month to month basis with approximately 17,000 users across the portfolio.

Various summary statistics regarding the investment property portfolio is summarised in the table below:

Table 56 – Summary statistics regarding investment properties

As at \$'000	30-Jun 2011	31-Dec 2010	30-Jun 2010	31-Dec 2009	30-Jun 2009
Carrying values					
Australia	264,112	258,020	247,188	245,407	244,718
New Zealand (Note 1)	67,021	67,293	71,876	71,169	69,545
Total	331,133	325,313	319,064	316,576	314,263
External valuation (by value) (%)	60.0%	67.0%	37.0%	64.0%	51%
Internal valuation (by value) (%)	40.0%	33.0%	63.0%	36.0%	49%
External valuation (by number)	22	25	16	25	21
Internal valuation (by number)	20	17	26	17	23
External valuation (by number) (%)	52%	60%	38%	60%	48%
Weighted average capitalisation rate for the portfolio	9.2%	9.1%	9.1%	9.1%	9.1%
Stabilised weighted average occupancy level for the portfolio adopted in independent valuations	90.2%	90.0%	91.0%	92.0%	92.0%
Average occupancy across the portfolio	84.8%	84.4%	83.0%	86.0%	84.0%

Source: Various ASF annual financial statements, investor updates and other public documents.

Note 1: The impact of AUD / NZD FX rate revaluations against rates at acquisition date have been measured and reported separately on a net basis in the foreign currency translation reserve.

ASF has limited property development exposure other than the expansion of some facilities where demand exists.

Fair value gains/ (loss) on investment properties have been as follows.

Table 57 – Investment property revaluation gains

As at \$'000	30-Jun 2011	31-Dec 2010	30-Jun 2010	31-Dec 2009	30-Jun 2009
Carrying amount at beginning of year	316,594	316,594	312,819	315,219	215,820
Additions and capital expenditure	2,461	1,612	2,757	991	2,095
Acquisition of new investment properties	0	0	0	0	44,983
Acquisition through business combinations	0	0	0	0	55,682
Disposals of plant and equipment	(13)	0	0	(2,400)	0
Fair value adjustments for properties held at balance date	16,477	12,693	3,628	3,321	(3,939)
Foreign exchange (losses) / gains	(3,576)	(4,721)	690	419	578
Properties transferred to held for sale	0	0	(3,300)	0	(2,400)
Sub-total	331,943	326,178	316,594	317,550	312,819
Less property, plant and equipment	(810)	(865)	(830)	(974)	(956)
Investment properties					
- Non-current	331,133	325,313	315,764	316,576	311,863
- Current	0	0	3,300	0	2,400
Carrying amount at the end of the financial year	331,133	325,313	319,064	316,576	314,263
Revaluation gain (%)					
6 mthly	5.1%	4.0%	1.1%	1.1%	
12 mthly	5.2%	4.0%	1.2%		

Source: Various ASF annual financial statements, investor updates and other public documents.

12.9.2 Property valuations

The difficult trading period during and following the GFC and its impact on economic and investment activity adversely affected ASF property valuations, largely by way of an increase in property asset capitalisation yields, (which have the effect of lowering property values). However, the overall decline has been mitigated by increases in income, which, in combination, led to modest real property asset devaluations in 2009. Subsequently, increases in income have resulted in revaluation gains in FY2010 and 2011.

The valuation policy adopted by ASF for its financial statements to ensure that the carrying amount does not differ materially from the asset's fair value at the balance date is to obtain independent valuations of each property at least annually in December or June. The cycle of valuations is staggered such that the investment properties are independently revalued in either the June or the December reporting cycles. ASFML Directors' valuations are utilised when independent valuations have not been obtained. The lending banks also require all the investment properties to be valued every year.

All of ASF's property portfolio has been independently valued in the last twelve months.

The valuations are undertaken by a valuer licensed under the law of the state or territory in which the property is located to practice as a valuer who has at least five years of continuous experience in valuation and who has no pecuniary interest that could conflict with their valuation. The valuation is required to follow the principles set out in the guidelines established by the Australian Property Institute.

The typical basis of the ASF independent valuations as at 30 June 2011 is as follows:

- they are undertaken by valuers independent of ASF;
- are determined on a fair market value basis;
- have regard to the expected rental income from, and profitability of, the facilities, having regard to the facilities being operated by a commercial manager such as Storage King;
- additional 'other income' has been included for items such as late fees, insurance sales, and merchandise sales. Income derived from other sources such as other property leases is also included in revenue items;
- a stabilised occupancy level adopted, (after assessing historical performance and other critical matters likely to affect occupancy performance). This means that the valuations are predicated on either existing mature/sustainable occupancy levels, or where the actual occupancy at the time of valuation is less than an assessed mature/sustainable occupancy level, at the higher mature/sustainable occupancy level;
- a deduction is made for the cost of vacancy during occupancy build-up, for those facilities which are currently operating below the forecast, average stabilised occupancy level;
- direct expenses and a management fee allowance have been deducted from the gross revenue and the net income capitalised. Net income is income after deductions for direct operating costs and a management fee allowance of between 5% and 7.00% (depending upon the facility) of gross revenue. Effectively, this covers fees payable to a commercial manager such as Storage King;
- a deduction is made for immediate capital works where appropriate;
- valuation methodologies adopted include capitalisation of net income method and discounting of future cash flows to their present value;

- have regard to recent market sales evidence of other properties of a similar size, location, similar standard of construction and used for similar purposes; and
- the valuations incorporate a value of the business activities undertaken at each storage facility and not just the real estate component.

The typical basis of the ASF directors' valuations as at 30 June 2011 is similar to the independent valuations as outlined above, with the exceptions that the valuation methodology adopted is the capitalisation of net income method and there is no reference to recent market sales evidence of other properties.

The key underlying assumptions, on a portfolio basis, contained within the independent and ASF directors' valuations as at 30 June 2011 are as follows:

- a weighted average capitalisation rate for the portfolio of 9.2% (2010: 9.1%);
- rental income based on:
- the stabilised weighted average occupancy level adopted for the portfolio of 90.20%; and
- current storage fee rates.

12.9.3 Debt Facilities

In August 2010, ASF re-financed its combined debt facilities into a new \$190m, 3 year club facility with three Australian banks, which expires in August 2013. At maturity, a lender has no obligation to roll over a loan at the end of the loan term. The bank loans are secured by a charge over the investment properties and certain property, plant and equipment.

Set out below is a summary of the debt facilities of ASF as at 30 June 2011:

Table 58 – ASF Debt Facilities as at 30 June 2011

Facility	Facility Limit	Utilised 30 June 2011	Unutilised 30 June 2011	Expiry
	\$'000	\$'000	\$'000	
Bank loans	190,000	176,070 1	11,975 1	August 2013
ABP loan facility	10,000	5,215	4,785	September 2013
ASF AWCF	37,000	28,316	8,684	December 2018
Total facilities	237,000	209,601	25,444	

Sources: ABP management.

Note 1: Net of unamortised borrowing costs (of \$1.955m).

The first expiry of debt facilities is in August 2013. Interest rate exposure on debt facilities is managed through the use of fixed rate loans and interest rate swap contracts.

As at 30 June 2011, 77.9% of the total debt facilities were covered by interest rate swaps and fixed interest arrangements at an average effective fixed interest rate (including bank margin) of 8.2% pa. The overall effective interest rate is 7.8% pa with an average term to maturity of 2.4 years.

12.9.4 Banking Covenants

The current banking covenants are set out in the following table.

Table 59 – Banking Covenants

Financial Covenant	Covenant Requirement	Measure as at 30 June 2011
• Loan to value ratio ¹	60% as at 30 June 2011 55% from 1 July 2011 52.5% from 1 July 2012 50% from 1 January 2013	53.6%
• Interest cover ratio ²	1.5 times as at 30 June 2011 1.55 times from 1 July 2011 1.60 from 1 January 2012 1.65 times from 1 July 2012 1.75 times 1 January 2013	1.77 times ³

Source: ASF FY2011 Annual Financial Statements; ASFML management.

Notes:

- 1** Loan to value ratio = Drawn Loan / Bank accepted valuations. ASF AWCF is excluded in calculating Loan to value ratio.
- 2** Interest cover ratio = EBITDA (excluding unrealised movements in asset valuations and derivatives) / Interest Expense for the previous 12 month period.
- 3** Pro-forma. The difference between the actual interest cover and the pro-forma interest cover is the assumption that the ASF AWCF is fully replaced by equity, and hence the interest expense is lower.

12.9.5 Abacus Working Capital Facility

The ASF AWCF is provided to ASF by Abacus Finance Pty Limited, which is a member of ABP. The ASF AWCF was intended to be repaid as securities are subscribed for by Securityholders in ASF. The ASF AWCF is repayable immediately in full if ASFML ceases to be the RE of ASF.

The ASF AWCF is subordinated to bank debt and creditors. The ASF banks do not include the interest on the ASF AWCF in their calculation of interest cover for lending purposes.

In a return of capital on winding up of ASF, the ASF AWCF has the same priority of repayment as ASF Securityholders and participates in any deficit or gain on winding up in the same proportion as ASF Securityholders.

There are no loan-to-value or other covenants and there are only limited circumstances when the loan must be repaid, for example, if ASFML ceases to be the responsible entity of ASF.

The interest rate on the ASF AWCF comprises two (2) elements:

- an interest rate per distribution period expressed as a percentage equal to the distribution (in cents) per ASF Security for the relevant distribution period divided by the issue price of an ASF Security at the commencement of the next distribution period, or if there is no issue price, then the Net Asset Value of an ASF Security; and
- a further interest charge equivalent to the percentage increase or decrease of the current ASF Security issue price during the financial year that is applied to the balance of the ASF AWCF at the commencement of the financial year. In essence, the outcome of this further interest charge is that the ASF AWCF has the same capital growth entitlements as ASF Investor equity up until it is repaid, commencing as at 1 July 2008.

The price at which the ASF AWCF converts into ASF securities reflects the growth in the net asset value since 1 October 2008, when the net assets per ASF Security were \$1.18. Under the above arrangements, the estimated number of ASF Securities into which the balance of the ASF AWCF as at 30 June 2011 could convert is calculated in the table below.

The calculation reflects that as at 30 June 2011, the ASF AWCF converts into securities as the net asset value as at 30 June 2010, of \$1.19, because, as at 30 June 2011, the growth in the net asset value in FY2011 has not been incorporated into the value of the ASF AWCF.

Table 60 – Number of ASF Securities into which the ASF AWCF could convert as at 30 June 2011

Conversion of ASF AWCF to ASF Securities			
Balance of ASF AWCF as at 30 June 2011	A	\$'000	28,669
Issue price of an ASF Security for these purposes	B	\$	1.19
Number of ASF Securities into which the ASF AWCF converts	C=AxB	'000	24,092

Source: ASF AWCF Facility Agreement (as amended); LCF analysis.

12.9.6 ABP Loan Facility

The ABP loan facility is from the Abacus Unitel Trust and was established in August 2010 to assist in financing capital expenditure and in paying amounts owed under or in connection with debt and hedging arrangements. This loan facility has a limit of \$10m, expires in September 2013, an interest rate of 9% pa and was drawn to \$5.215 at 30 June 2011 (December 2010: \$0.8m).

12.10 Cash flow & distributions

The audited cash flow statements of ASF for FY2009, FY2010 and FY2011 are presented in the table below.

Table 61 – ASF Cash flow statements

Year ended 30 June	2011	2010	2009
\$'000			
Cash flows From Operating Activities			
Income receipts	40,854	38,407	31,256
Interest received	105	54	76
Borrowing costs paid	(14,839)	(14,505)	(11,928)
Operating payments	(16,855)	(16,828)	(12,434)
Net Cash flows From Operating Activities	9,265	7,128	6,970
Cash flows From Investing Activities			
Purchase of U-Stow-It Holdings Limited	0	(6,048)	(39,587)
Purchase of self storage properties	0	0	(44,983)
Proceeds on sale of investment property	3,384	2,400	0
Payment for capital expenditure	(2,400)	(2,757)	(2,095)
Net Cash flows From Investing Activities	984	(6,405)	(86,665)
Cash flows From Financing Activities			
Proceeds from issue of stapled securities	0	6,058	5,772
Payment of issue costs	(6)	(151)	(198)
Proceeds from borrowings	188,750	11,714	81,481
Repayment of borrowings	(186,055)	(10,648)	0
Payment for financing costs	(4,771)	0	0
Distributions paid	(7,508)	(7,300)	(6,575)
Net Cash Flows From Financing Activities	(9,590)	(327)	80,480
Net increase in cash and cash equivalents	659	396	785
Net foreign exchange differences	(91)	4	17
Cash and cash equivalents at beginning of year	3,414	3,014	2,212
Cash and cash equivalents at end of year	3,982	3,414	3,014

Source: ASF FY2011 & FY2010 Annual Financial Statements

We note the following in relation to the cash flow statements of ASF as outlined above:

- in FY2009 and FY2010, distributions paid approximated Net Cash Flows From Operating Activities; and
- the drawdown of \$5.215m of the ABP Loan Facility in FY2011 allowed ASF to maintain its cash balances as at 30 June 2011 at approximately the same level as at 30 June 2010.

ASF is a stapled entity made up of the Abacus Storage Property Trust and Abacus Storage Operations Limited. The Trust is a managed investment scheme for the purposes of sub-division 12-H of the Taxation Administration Act 1953.

ASF pays quarterly distributions to Securityholders. The source of distributions is realised income comprising operating cash flow from the storage properties plus the reduction of any interest on loans provided by ABP and/or ASFML and Storage King management fees (to the extent required).

To date, all distributions have been paid by the Trust except where otherwise shown. The distributions to ASF Securityholders have been as follows:

Table 62 – ABP Storage Fund: Distribution and tax information

Period ending /record date	Payment date	Distribution amount, cps	Tax-deferred	Total taxable other income and interest
FY 2012				
30-Sep-11	8-Nov-11	2.1875		
FY 2011		8.7500	25.87%	74.13%
30-Jun-11	8-Aug-11	2.1875		
31-Mar-11	9-May-11	2.1875		
31-Dec-10	7-Feb-11	2.1875		
30-Sep-10	8-Nov-10	2.1875		
FY 2010		8.7500	100% (for trust distributions; fully franked for company dividend)	
30-Jun-10	6-Aug-10	2.1875		
31-Mar-10	7-May-10	2.1875	100% fully franked dividend	
31-Dec-09	5-Feb-10	2.1875		
30-Sep-09	6-Nov-09	2.1875		
FY 2009		8.5000	100%	
30-Jun-09	7-Aug-09	2.1875		
31-Mar-09	8-May-09	2.1875		
31-Dec-08	6-Feb-09	2.0625		
30-Sep-08	6-Nov-08	2.0625		
FY 2009		8.2500	100%	
30-Jun-08	7-Aug-08	2.0625		
31-Mar-08	8-May-08	2.0625		
31-Dec-07	7-Feb-08	2.0625		
30-Sep-07	8-Nov-07	2.0625		

Source: ASF FY2011 & FY2010 Annual Financial Statements; ABP web-site.

The distributions per security for the quarter ended 31 March 2009 and following has been steady at 2.1875 per security per quarter.

For the original investors under the 2005 Offer Document, (investment amount \$1.00 per security), the tax deferred amounts paid to 30 June 2011 total \$0.255761 per security.

12.11 Capital Structure and Ownership

The top ten ABP security holders and total issued securities of ABP as at 24 August 2011 are as set out below.

Table 63 – Top ASF Securityholders

	Securityholders As at 30 June 2011	Number of Securities	Percentage of Securities
1	ABP Group Holdings Limited	6,914,207	7.92%
2	Australian Executor Trustees Limited <Esplanade Property Fund A/c>	6,365,168	7.29%
3	Perpetual Trustee Company Limited <ABP A/c>	6,128,169	7.02%
4	Virginia Park Investment Pty Limited <Virginia Park Investment A/c>	3,606,801	4.13%
5	Netwealth Investments Limited <Wrap Services A/c>	3,236,071	3.71%
6	HSBC Custody Nominees (Australia) Limited <011-797685-062 A/c>	2,473,893	2.83%
7	Bond Street Custodians Limited <Portfolio Manager A/c>	1,290,806	1.48%
8	Australian Executor Trustees Limited	1,264,188	1.45%
9	Richard Archie Lowe & Rhonda Dianne Lowe	800,000	0.92%
10	ABP Storage Funds Management Limited	770,674	0.88%
11	Storage King Pty Limited	717,500	0.82%
12	Citicorp Nominees Pty Limited <UBS AG London A/c>	500,000	0.57%
13	Mr Alan Keith Truscott & Mrs Joan Truscott <Truscott Family SF A/c>	500,000	0.57%
14	RBC Dexia Investor services Australia Nominees Pty Ltd <MLCI A/c>	499,812	0.57%
15	Netwealth Investments Limited <Super Services A/c>	431,009	0.49%
16	JJDA Investments Pty Ltd	300,000	0.34%
17	Mr Anthony Marshall & Mrs Barbara Marshall <The Next S/F A/c>	300,000	0.34%
18	RMR Investments Pty Ltd <Rebbeck Super Fund A/c>	267,116	0.31%
19	Mr Michael Robert Beech & Mrs Robin Lynn Beech <MR beech Super Fund A/c>	250,000	0.29%
20	Gerrin Pty Ltd <The Levy Family S/F A/c>	250,000	0.29%
21	Kuhlmann Investments Pty Ltd <Kuhlmann Investments A/c>	250,000	0.29%
22	Lynden Aged Care Association Inc	250,000	0.29%
	Top 22 Securityholders	37,365,414	42.81%
	Other Securityholders	49,910,301	57.19%
	Total	87,275,715	100.0%
	ABP related	17,419,851	19.96%

Source: ABP management.

Interests associated with ABP have ownership interests (direct and indirect) in approximately 19.96% of ASF and the top ten Securityholders other than ABP hold approximately 20.22% of the total ASF Securities.

The most recent offer document was the 2008 Offer Document, dated 24 December 2008 and securities were issued at \$1.18 each.

12.12 ASF Distribution Reinvestment Plan

The ASF Distribution Reinvestment Plan is currently suspended.

12.13 Liquidity arrangements

As ASF is not listed, there is no market trading in ASF Securities. The ASF Constitution provides that, when ASF Securities are redeemed, they will be redeemed at the Value per ASF Security calculated as per the ASF valuation policy). At present, redemption of ASF Securities is suspended.

ASF offered a limited liquidity facility. However, ABP suspended the liquidity facility as ABP and its associated entities had a relevant interest of 19.96% in ASF and consequently the liquidity facility will not be available in the future unless new equity is raised.

12.14 Security value of ASF

The ASF Security value as at 30 June 2011 was \$1.30 (as stated on the ABP web-site).

The current ASF Security value is calculated by reference to the adjusted net asset value per security and before any adjustment for performance fees and selling fees which may be payable.

A summary of the valuation methodology is set out below:

- the Issue Price of Securities under the current Offer Document if there is a current offer document;
- the amount guaranteed by ABP if a guarantee remains in place; or
- the adjusted net asset value calculated as:
 - Adjusted net asset value
 - divided by
 - Adjusted securities on issue

Adjusted net asset value is the net assets of ASF (which includes all investment and financial assets) less all liabilities (including borrowings, accrued costs, other liabilities, provisions and unpaid distributions), as determined by reference to the latest audited financial statements.

A number of adjustments are made reflect the following:

- the fair value of any interest rate swaps are excluded from the current unit value as they will ultimately reduce to a value of zero over the term of the swap provided ASF expects to hold that swap to maturity. If the swap is not held to maturity there will be an adjustment to the security value; and
- the ASF AWCF, provided as interim funding until investor equity is subscribed, is added back to reflect the 2008 Offer Document pro-forma assumption that this funding had been repaid in full through investor subscriptions and to reflect that the ASF AWCF ranks equally with equity on a winding up of the Fund rather than in preference to equity.

Adjusted securities on issue is the actual number of securities on issue plus the number of securities that would be issued if the ABP Working Capital Facility were repaid in full through the issue of new securities.

Any applicable fees and expenses such as future performance fees or selling fees are not included in the calculation of the current unit value of a Fund.

12.15 Liquidity Event

In the 2005 Offer Document when ASF was launched in November 2005, the manager undertook to convene a meeting of ASF Securityholders at least every five years from the date of the 2005 Offer Document, at which time ASFML would make a recommendation to ASF Securityholders to choose (by way of special resolution) from among various strategic options (each being a "**Liquidity Event**"), including whether:

- ASF should be listed on the ASX or another securities exchange;
- the assets of ASF should be sold and the proceeds (net of liabilities) distributed to ASF Securityholders;
- merging ASF with another entity; or
- ASF should continue as an unlisted entity with a further review within five years.

The first such meeting was scheduled for no later than November 2010. The 2008 Offer Document indicated that a Liquidity Event may realistically be closer to 2012/2013.

ASFML has advised ASF Securityholders that the manager considered that while capitalisation rates may have stabilised, as a result of the GFC capital markets were still too uncertain and investors remained cautious and debt markets for property transactions were still relatively constrained, to effect a liquidity event (such as by way of a possible trade or portfolio sale that maximised value for ASF Securityholders) and that a liquidity event may need to be delayed to take advantage of possible improvements in capital markets over time and to have more time to grow the size of the ASF portfolio.

A listing on the ASX was considered less than optimal as:

- property securities listed on the ASX traded at discounts to net asset value levels, which would make listing of ASF in these conditions undesirable; and
- it was the manager's view that ASF's total assets of \$325m required larger scale to list ASF, so as to gain adequate analyst coverage and liquidity in a listed environment.

ASFML advised ASF Securityholders that:

- it aims to position ASF for a trade sale or listing on the ASX by 2013 by continuing to build the Fund's portfolio of assets in accordance with the investment strategy set out in the 2005 Offer Document;
- notwithstanding the above, there is no guarantee that capital markets will improve by 2013 and it is possible that they could deteriorate;
- given the financing constraints of ASF and its inability to borrow more funds without raising more equity (which is considered difficult given current market conditions), ASF is constrained in being able to build sufficient additional scale in its operations; and
- ASFML cannot give any assurance that ASF will be listed by 2013 as this will depend on the nature of ASF and market conditions at the time.

The annual general meetings of ASF Securityholders on 11 November 2010, passed special resolutions (75% or more of the votes cast by ASF Securityholders entitled to vote on the respective resolutions) to the effect that the date by which strategic options should be recommended to ASF Securityholders should be extended with a view to achieving an exit from ASF in 2013, that is a timeframe consistent with the expiry of ASF's new three-year bank debt funding facilities.

ASF Securityholders are scheduled to next meet during 2013 to discuss liquidity options for ASF with a view to taking advantage of any improvement in market conditions during this period.

12.16 Outlook and Strategy

Direct property markets appear to have stabilised since the GFC, after the reported increase in capitalisation rates across all property sectors. This was experienced in the self storage sector and within ASF, where the weighted average capitalisation rate for the portfolio increased from 8.6% in June 2008 to 9.1% at June 2009, where it has remained until 30 June 2011, when it increased to 9.2%.

The ASF and the Australian self storage sector have proven to be resilient in the difficult economic environment during and following the GFC.

As indicated in Section 12.9.1 above, underlying cash flows across the ASF portfolio have held up well, and have shown increases on a like-for-like basis.

Looking ahead, ASFML has indicated that key strategic objectives include:

- reducing gearing consistent with the step down in LVR required over the term of the new 3 year bank facility;
- optimising revenue through yield and occupancy enhancement where appropriate and when market conditions permit; and
- undertaking selective facility expansion.

ASFML, as RE of ASF has advised that it will continue to assess market conditions with a view to achieving an eventual exit strategy for ASF Securityholders.

12.17 ASF SWOT Analysis

Set out below is a summary of the strengths, weaknesses, opportunities and threats relating to ASF.

Table 64 – ASF SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • A well established, leading participant in the self storage industry in Australia and New Zealand • Profitable and cash flow positive, supporting distributions 	<ul style="list-style-type: none"> • Relatively highly geared for current market conditions • Dependent upon Storage King and ASFML reducing their fees to maintain distributions to ASF Securityholders • Already high gearing and inability to raise substantial additional equity constrains ability to expand the portfolio by acquisitions
Opportunities	Threats
<ul style="list-style-type: none"> • Potentially participate in any further rationalisation/ concentration of the Australia and New Zealand self-storage industry, subject to funding constraints • Opportunity to undertake further consolidation, subject to adequate funding being available 	<ul style="list-style-type: none"> • Tightening banking covenants over time • Bank debt refinancing due by no later than August 2013 • Potential for recoupment of reduced Storage King and ASFML management fees to be recouped, if conditions met • Potential for large fees to be payable to Storage King and ASFML upon a liquidity event

Source: ABP management.

13 Industry Overview

13.1 Introduction

Listed property investors continue to stabilise their capital structures and refocus on core business. Valuations and senior debt availability appear to be stabilising, but remain conservative. Property fundamentals are beginning to stabilise and the general consensus is that the market is at or near the end of the downward cycle. A number of mergers and acquisitions have occurred in relation to listed investors.

The fund management environment is fundamentally different, with many retail fund management players no longer operating independently.

There have been limited material unlisted retail capital raisings, with current focus on smaller, yield-driven investment syndicates.

Overall, many investors remain cautious. In the near term investors will be likely to be focused on yield and certainty of investment. However, in contrast, many opportunities continue to present themselves in the development and opportunistic area for the principal investor who can take advantage of the recent downturn to acquire projects from pressured vendors.

Conditions in the Australian commercial property market softened in the September 2011 quarter with persistent uncertainty in the global economy and equity markets impacting negatively on confidence.

Improved conditions are forecast in all property segments over the next two years, but the pace of recovery is expected to be softer than previously expected. The biggest improvement is seen in the industrial sector, but office property is expected to remain the strongest performing segment overall and retail the weakest.

One recent survey of capital value expectations indicates that they have been scaled back in all market segments.

Office markets are expected to be stable with signs of improvement in most metrics and the outlook for the majority of markets. Low vacancy rates should be maintained with little prospect of new supply in most key markets materially adversely impacting rents. Strong investment demand from local buyers (and to a lesser extent, from offshore) is expected to underpin capital values.

Retail property will be supported by continuing low vacancy rates thereby supporting net income from assets. Values will likely increase for prime assets but secondary assets may come under pressure.

Despite negative sentiment regarding the retail market and performance by some retailers, generally speaking the major listed retail A-REITs are owners of high quality assets, which should support valuations.

High levels of inventories and steady GDP growth (excluding flood impacts) are supportive to the Industrial sector. Steady to lower capitalisation rates are expected and possible rent increases for prime assets. Similar to the office markets, the low level of supply of new accommodation remains the key positive element for most domestic industrial markets.

A-REIT payout ratios (the percentage of earnings paid to investors) are currently in the order of 80% and with strengthening confidence in the sector and earnings grow, are expected to gradually increase, leading to higher distribution yields.

Examples of this in the market are Westfield Retail Trust committing to higher payout levels (circa 90%) and Charter Hall Retail Trust and Charter Hall Office Trust have recently increased their payout ratios. Higher payout ratios are expected to assist in narrowing the discount to NTA at which the listed A-REITs trade.

13.2 Self storage Industry

The self storage industry began in Australia and New Zealand in the early 1980's with storage facilities developed as basic warehouse conversions or as an extension to existing businesses. In the late 1980's an increasing number of purpose-built facilities were constructed.

It is estimated that there are now in excess of 1,000 self storage facilities in Australia and New Zealand, ranging in size from small sites in regional areas to multi-storey sites with over 1,000 units in urban areas. Specialised storage solutions are also available: climate controlled wine storage, document storage, and vehicle storage. In addition, mobile storage options are now emerging whereby the storage unit is delivered to the customer for use and taken away for storage at a remote site.

Self storage in Australasia continues to be used primarily by residential customers for storing excess personal items. However, there is an increasing demand from commercial clients. It is estimated that two thirds of the revenue in the sector is generated by residential customers, and one third by commercial customers.

In the USA, where self storage originated in the 1970's, there is around 0.4 square meters of storage space per capita. By comparison, Australia has only around 0.15 square meters per capita. The industry therefore has scope for growth.

The potential growth of the sector in Australia has attracted an increasing number of larger-scale investors. What was once a 'mums and dads', owner-operator industry is becoming increasingly corporatised. It is estimated that the three largest industry players in Australia control 35% of the available self storage space.

Storage units are normally rented on a month by month basis with the charge varying according to size. The 'churn' of customers is generally low, and mature facilities can operate at an occupancy rate of 85% - 95%. Ancillary income, for example from the sale of insurance or packaging supplies, can be as much as 10% of total revenue, and is very high margin. Bad debts are generally low. The business is somewhat seasonal and the summer months represent a "high" period of activity.

As a general rule, goods that are put into self storage are considered to be valuable by their owners - otherwise they would not be stored. In addition, the logistics of moving goods out of a self storage unit (and then either storing them until a cheaper option is found or disposing of them), are tedious, time consuming, and also have a cost attached to them.

As a result, self storage generally exhibits a low level of price elasticity. Provided that price increases are kept to a reasonable level, and service and security of goods is maintained at a high level, customers will generally continue with self storage once they have got into the pattern of using it.

The Australian and New Zealand self storage industry has enjoyed a decade or more of strong economic growth and prosperity. The GFC of 2008 and the accompanying contraction in consumer spending have adversely affected the economic outlook for most economies, including New Zealand.

Data for the major USA listed participants in the self storage industry indicates that the sector has been generally robust in the face of deteriorating economic conditions in the USA.

The supply of self storage space in Sydney, Brisbane, Melbourne and Auckland (New Zealand) now show supply levels of 0.13, 0.18, 0.12 and 0.15 square metre of storage space per capita respectively. These supply levels remain generally below those of fully developed self storage markets in the U.S. where supply rates are typically over 0.20 square metres per capita and regularly reach in excess of 0.50 square metres per capita.

New Zealand conditions

Generally speaking, trading in the New Zealand market has been difficult in the last two to three years and revenues may be at cyclical lows, but the extent and timing of any recovery is uncertain. Recent sales evidence for storage facilities is limited. However, recent valuations indicate strong underlying yields and increased purchasing interest.

Australian conditions

There is an acknowledgement that properly managed, well run and economically viable self storage facilities have been resilient investments in Australia.

Recent statistics indicate overall (though relatively minor) rental growth over the last 12 months in various major storage markets, in contrast to the general fall in rentals seen in traditional commercial and industrial markets.

There have been a very limited number of sales of operating self storage facilities on stand-alone, going concern bases. However, recent valuations indicate strong underlying yields and increased purchasing interest.

13.2.1 Market Participants

A significant proportion of the market in all locations remains in the hands of smaller operators. However there is a clear consolidation trend in the industry. All major operators have expanded their areas of operation either by direct acquisition of facilities or through an increased number of branding and management structures. It is expected that this trend will continue as the establishment of a greater number of facilities under a single brand offers larger operators advantages in:

- brand recognition;
- economies in purchase of advertising, insurance, recruitment and other major operating cost items;
- implementation of management systems and operating applications, and
- influencing unit pricing.

13.2.2 Major Participants

The period from 2006 to 2008, saw major self storage operators and institutional investors such as National Storage, Kennards and Abacus Storage Fund pursuing aggressive acquisition programmes and building substantial and geographically diverse portfolios. This also saw Australian based operators taking a major presence in New Zealand self storage markets.

Kennards has traditionally controlled a high proportion of the Sydney market and is the dominant Sydney operator with approximately 50% of the overall unit supply in the Sydney Metropolitan area. Storage King, National Storage and Kennards are the major Brisbane operators. Storage King, Kennards Self Storage, Fort Knox Self Storage, Frys Self Storage and Kennards are the major Melbourne operators. Storage King, National Mini Storage and Kiwi Self Storage are the major operators in Auckland (New Zealand), with the majority of the facilities in that country being small scale, independent operators. Allstor Self Storage Limited dominates the Christchurch (New Zealand) market with approximately 27% of all facilities.

Kennards

Kennards is a long established family owned and operated business, and is the largest owner/ operator in the sector. Since opening its first location in 1973, Kennards has grown to 69 locations in Australia and New Zealand. In 2004, Kennards partnered with the Valad Property Group to acquire the Miller self storage portfolio of 24 facilities for \$220 million. The storage centres were managed by Kennards.

Subsequently, in June 2008 Kennards purchased all Valad's interest in the storage joint venture. The terms provided almost 3 years for Kennards to finalise the acquisition. In November 2010, Kennards announced that it had completed the purchase. By 2010, the Kennards-Valad Joint Venture had grown to 36 self storage properties.

Kennards has indicated that it prefers to own its real estate and maintains a long-term investment ownership view of their business and pursues most of its growth with development of new sites, with less appetite to acquire existing storage facilities.

Storage King

Storage King operates approximately 120 facilities in Australia and New Zealand. The Facilities are either managed by Storage King or use the Storage King Branding as a franchisee. Storage King manages a total of 41 facilities on behalf of Abacus Storage Fund.

The facilities have on site management staff in attendance at the reception office of each facility. Business hours vary from site to site depending on local demand.

Storage King operates an extensive advertising programme across a range of media including a well developed website, Yellow Pages directories, internet advertising and radio advertising. Storage King has a central website providing detail on all facilities.

National Storage

National Storage was established in December 2000, following the merger of Stowaway Self Storage, National Mini Storage and Premier Self Storage.

As of May 2011, National Storage had 60 storage centres located in Brisbane, Sunshine Coast and Gold Coast in Queensland, Sydney Western Suburbs in New South Wales, Melbourne and Geelong in Victoria, Adelaide in South Australia, Perth in Western Australia and Hobart in Tasmania. National Storage aims to continue to expand its network through the acquisition of existing sites and the development of "greenfield" sites. At the time of the Southern Cross Storage transaction (refer below). National Storage was reported as indicating that it wished to grow to 100 storage centres within the next 2 to 3 years.

In December 2008, it was announced that Investec Bank (Australia) Limited and National Storage had agreed on a \$90 million transaction in which the Investec Property Opportunity Fund ("IPOF") would acquire 11 storage centres then leased by National Storage in South East Queensland, Sydney, Perth and Hobart. Six of the properties were acquired from the APN National Storage Trust and five from entities in the National Storage Group. The 11 properties, were successfully operated as storage centres by National Storage, were to be leased back to National Storage on a triple net lease basis. The transaction provided IPOF with over 41,000spm of dedicated storage space across the centres being acquired. National Storage was expanding seven of the acquired properties that would add a further 13,500spm of storage accommodation.

Investec Property Opportunity Fund

IPOF is a stapled, unlisted closed fixed term opportunistic property fund which invests in an actively managed diversified portfolio of investment and development assets and states that it aims to deliver a total return of 15% per annum pre tax.

IPOF was originally launched in late 2007 with total equity commitments of A\$116m, a fixed term of 4 years unless terminated earlier by the manager or by operation of law, or extended by a special resolution of unit holders.

A summary of some publicly available information about the IPOF as at 31 December 2010 is set out below:

Table 65 – IPOF publicly available information

Statistic	As at end December 2010
Fund size (gross assets)	A\$230 million
NTA per unit	Fully Paid A\$1.05
Original min. investment	A\$500,000
Distribution payments	Quarterly, although not guaranteed
Withdrawals	Not Applicable
DRP	Not Applicable
Total borrowings	A\$128 million
Gearing Ratio	58%
Number of investors	304
Earliest fund termination	Dec-11

Source: http://www.investec.com.au/home/specialist_funds/property_investments/IPOF.print.html

Among other assets, the IPOF held the National Storage Portfolio, acquired in December 2008.

Following acquisition of the portfolio in 2008, 7 of the 11 self storage facilities were subsequently redeveloped to produce over 14,000 sqm of additional spaces. Upon completion of the redevelopments, the additional spaces were also leased to National Storage on the same terms. Total NLA across the portfolio is in excess of 54,000 sqm.

Southern Cross Storage (Heitman)

On Friday, 30 September 2011 Heitman, in partnership with Brisbane-based storage group National Storage, acquired a portfolio of 11 self storage assets spanning New South Wales, Queensland, Western Australia and Tasmania. The assets were purchased from the IPOF (managed by Investec Bank) for \$101 million in one of the largest specialised portfolios to be sold in 2011. Nine self-storage properties also were acquired from an unlisted fund run by APN Funds Management.

The acquisition of the self-storage units forms part of a \$187.5 million joint venture agreement between Heitman and National Storage comprising 20 properties and two businesses. The 20 properties total around 100,000 square metres of storage space across 11,000 individual units.

Heitman have previous experience in self storage investment. In August 2011, Heitman acquired 19 storage facilities in New Jersey and Pennsylvania in a similar joint venture arrangement with US REIT Sovran Self Storage, Inc, with Heitman providing 85% of the equity. Sovran operates under the 'Uncle Bobs Self Storage' brand with 400 locations in the USA.

The National - Heitman JV has publicly canvassed its intentions to seek further acquisitions, and attempt to consolidate the industry further.

APN National Storage Property Trust

On 23 September, APN Funds Management ("APNFM") sold nine (9) assets held by the APN National Storage Property Trust ("**APN National Storage Trust**") to Southern Cross Storage Trust for a price of \$64.73 million. The sale price represents a discount to the 30 June 2011 book value of 6.1%. As a result, the Net Asset Value per unit reduced from \$1.0396 as at 30 June 2011 to an unaudited and estimated \$0.99 per unit. APNFM believes the discount to book value was outweighed by the reduction in cost of debt, improved debt facility covenants and strengthened security position.

14 Impact of the Merger on ABP

14.1 Financial Statements

14.1.1 Balance sheet

The pro-forma financial statements reflecting the adoption of AASB 10 and the Merger are set out in Sections 11.10.2 (Balance Sheet) and 11.10.3 (Income Statement).

The impact of adopting AASB 10 and implementing the Merger on the pro-forma financial position of ABP and ASF as at 30 June 2011 can be summarised as follows:

Table 66 – Merger impact on ABP financial position

\$ million	ABP AASB 10 Excluding ASF	Merged Group AASB 10	Increase/ (Decrease)
	Pro-forma	Pro-forma	Pro-forma
Investment and other properties, plant and equipment	1,261	1,592	332
Other tangible assets	483	420	(63)
Intangible assets	51	51	0
Total assets	1,795	2,064	269
Interest bearing liabilities	640	816	176
Other liabilities	129	140	11
Total Liabilities	769	956	187
Net assets	1,026	1,108	82
Equity attributable to ABP Securityholders	982	1,064	82
External non-controlling interests	44	44	0
Total equity / (net liabilities)	1,026	1,108	82
Net asset backing (\$/security)	2.54	2.51	(0.03)
Net tangible assets backing (\$/security)	2.41	2.39	(0.02)
Source: ABP, LCF analysis.			

The large increase in Investment and other properties, plant and equipment relates to acquisition of the self storage asset portfolio. The decrease in other assets reflects the elimination of ABP's existing equity interest in ASF, the elimination of the ASF AWCF and transactions costs.

The increase in liabilities is mainly attributable to assuming ASF's existing interest bearing liabilities; and the increase in Equity attributable to ABP Securityholders reflects ASF pre-Merger contributed capital.

The reduction in net asset and net tangible asset backing is mainly a result of the distribution of cash to Participating ASF Securityholders and transaction fees associated with the Merger.

14.1.2 Income statement

The impact of adopting AASB 10 and implementing the Merger on the pro-forma financial performance of ABP and ASF for the year ended 30 June 2011 can be summarised as follows:

Table 67 – Impact of Merger on pro-forma FY2011 financial performance

\$ millions	ABP AASB 10 Excluding ASF	Merged Group AASB 10	Increase/ (Decrease)
	Pro-forma	Pro-forma	Pro-forma
Total income	144	171	26
Total costs	110	115	4
Profit before tax	34	56	22
Net profit/ (loss) attributable to securityholders (statutory profit)	28	46	18
Pro-forma consolidated underlying profit	72	78	6
Statutory profit per security – cents	7.5	11.3	3.8
Underlying earnings per security – cents	19.4	19.0	(0.4)
Distribution per security – cents	16.5	16.5	0.0

Source: ABP, LCF analysis.

The increase in income and profit before tax is mainly attributable to acquiring the net storage income. Total costs increase with increased finance costs and administration costs which are largely offset by a reduction in the net change in fair value of investment assets held at balance date.

The pro forma underlying earnings per New Stapled Security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2%, in part as a result of the USI self storage assets being held by a company. This is not expected to impact distributions.

ABP does not provide distribution forecasts, reflecting that in each period income may comprise a mix of more stable recurring income and profit from transactions which are less predictable and the timing of which may vary.

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ASF or ABP securityholders arising from the Merger itself.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

Risk factors which might impact on the performance of ABP and ASF are set out in the Explanatory Memorandum.

14.2 Share price expectations

The VWAP of recent trading in ABP's securities were in the range of approximately \$1.90 to \$2.00. Full details of ABP's security price history and trading is set out in Section 11.12.

As a result of the Merger, in our opinion, the Merged Group's New Stapled Securities should trade at no less than ABP's securities before the Merger. Clearly, however, general economic and market conditions may impact Merged Group New Stapled Securities prices positively or negatively following the Merger.

Our view is based on the following:

- the underlying earnings per security of the Merged Group are not materially different from ABP's pre-Merger EPS;
- the Merged Group's earnings are arguably less volatile than ABP's pre-Merger earnings, as ASF's largely storage related income is less volatile than ABP's income;
- the NTA backing per security is not materially different from ABP's pre-Merger NTA backing after taking into account the effects of AASB 10. However, the gearing of the Merged Group is somewhat higher than ABP's current level of gearing;
- the continuing uncertainties surrounding ABP's funds management business are likely to continue to exert downward pressure on ABP's Security price pre- and post-Merger until such time as there is a clear resolution of the issues facing the Group. Accordingly, we do not expect a significant re-rating of the New Stapled Securities immediately post-Merger;
- the Merger does not materially impact pro-forma earnings and, therefore, the distribution paying capacity of the Merged Group. Assuming distributions post-Merger are maintained at pre-Merger levels, and the Merged Group trades at similar yields to ABP pre-Merger, the price of New Stapled Securities should not be materially different from ABP's security price pre-Merger (in the absence of general economic and market movements); and

- the discounts to various measures of net assets, net tangible assets and our assessed control value of an ABP Security that the assessed fair market value of an ABP Security/ New stapled Security on a minority basis represents (refer Table 68), do not appear unreasonable in the light of the range of discounts of comparable companies (refer Table 48).

While the analysis in Table 48 is based on financial information before the application of AASB 10, AASB 11 and AASB 12 and therefore is not strictly comparable, we note that based on various brokers reports, the market appears concerned about the impact of ABP's investments in its various funds management associates and this may account for the relatively large discount to NTA and NA (on a pre-of AASB 10, AASB 11 and AASB 12 basis) at which ABP has traded (refer Table 48). The major changes in NTA and NA arising from the application of AASB 10, AASB 11 and AASB 12 relate to the reduction in value in relation to ABP's investments in ADIF II and ASF (refer Section 11.10).

Table 68 – Discounts to various measures of net assets, net tangible assets and our assessed control value of an ABP Security

	ABP Balance Sheet as at 30 June 2011	ABP Balance Sheet as at 30 June 2011	Merged Group as at 30 June 2011	ABP Assessed fair market value- control basis		ABP / Merged Group Assessed fair market value- minority basis	
	Statutory	Pro- forma	Pro forma	Low	High	Low	High
Net asset value per Security	2.85	2.75	2.51				
Net tangible asset value per Security	2.73	2.63	2.39				
Fair market value per Security				2.43	2.55	1.90	2.00
Premium / (Discount) of minority interest value							
- to assessed fair market value - control basis						(21.8)%	(21.6)%
- to Merged Group NTA as at 30 June 2011 - Pro forma value						(20.4)%	(16.2)%
- to Merged Group NA as at 30 June 2011 - Pro forma value						(24.2)%	(20.2)%

Source: ABP, LCF analysis

14.3 Risks

Specific risks arising for ABP associated with acquiring ASF include:

- in addition to the risks associated with property ownership, ASF is subject to the business risk associated with self-storage. While the demand for self-storage has been resilient to-date, there is a business risk (not associated with being a 'landlord') such as, that the demand for storage space may decline, rentals may soften and/or there may be an over-supply of storage units in the future; and
- Storage King operates all of the storage assets under agreements expiring between 2012 and 2015. Storage King is not part of ABP and ABP currently does not have the management expertise to run the business. If Storage King was to cease business or not renew its contract, there could loss of income while a new operator was engaged.

15 Valuation of ABP

15.1 Fair market value of ABP

We have assessed the fair market value of an ABP Security on two bases:

- a minority interest basis – at between \$1.90 and \$2.00. This is based on recent market trading on the ASX, calculated on a volume-weighted average basis (refer Section 11.12); and
- on a control basis, at between \$2.43 and \$2.55. This value is based on the net assets/net tangible assets of ABP as disclosed in the audited financial statements of ABP as at 30 June 2011, after various adjustments, including adding the value of other net assets that are not reflected in the assessment of net assets/net tangible assets of ABP as disclosed in the audited and pro forma financial statements and deducting liabilities, including the capitalised value of the estimated ongoing management and other costs associated with managing ABP on a going concern basis over the medium term. This valuation assessment is explained in this Section.

The minority interest basis value is used to assess the fairness of the Merger from the viewpoint of Participating ASF Securityholders, Non-associated ASF Securityholders and ABP Securityholders, in accordance with RG 111 and ASIC's views.

The control basis value is compared with the ASX market trading prices of ABP Securities (i.e. the minority interest value) before the Merger as part of the assessment of the likely market trading price of New Stapled Securities (i.e. the minority interest value) following the Merger (refer Section 15.3).

15.2 Valuation of ABP Securities – Controlling basis

15.2.1 Approach

In our selection of an appropriate methodology to estimate the fair market value of an ABP Security we have considered common market practice and the valuation methodologies recommended by RG 111, which are summarised in **Appendix 1**.

Our estimate of the fair market value of an ABP Security on a controlling basis has been assessed using the net assets on a going concern valuation approach. We crosschecked our estimate of the fair market value of an ABP Security to earnings and asset based multiples of transactions comparable to the Merger. Our valuation has not been premised on the existence of a special purchaser.

15.2.2 Summary of valuation of ABP Securities – Controlling basis

We have estimated the fair market value of ABP and of an ABP Security (on a controlling interest basis) on a net assets basis at between \$940 and \$984 million, or \$2.43 to \$2.55 per stapled security as set out below in Table 69.

Our assessed fair market value compares to the pro-forma net assets of ABP attributable to ABP Securityholders as at 30 June 2011 (after allowing for the distribution paid in August 2011) of \$1,066 million, or \$2.75 per stapled security, and net tangible assets of \$1,018 million, or \$2.63 per stapled security.

Below is a table summarising our assessment of the fair value of ABP (on a control basis).

Table 69 Fair market value of ABP and an ABP security - controlling interest basis

\$'000	Ref	Balance Sheet as at 30 June 2011 Pro-forma	Fair market value	
			Low	High
Assets				
Cash		31,438	31,438	31,438
Direct property	15.2.3	981,338	981,338	981,338
Funds management (net of Underwritten Capital Return guarantee)	15.2.4	282,631	240,962	268,565
Property ventures	15.2.5	218,475	227,475	231,975
Goodwill and intangibles	15.2.6	47,654	5,832	12,073
Other	Note 1	16,018	16,018	16,018
Total Assets		1,577,556	1,503,065	1,541,408
Liabilities				
Interest bearing liabilities		446,565	446,565	446,565
Derivatives	15.2.7	17,360	32,377	32,377
Trade and other payables		27,023	27,023	27,023
Other liabilities		7,356	7,356	7,356
Total liabilities		498,304	513,321	513,321
Net assets		1,079,252	989,744	1,028,087
External non-controlling interest		13,755	13,755	13,755
Net assets attributable to ABP Securityholders		1,065,497	975,989	1,014,442
Capitalised corporate costs	15.2.8		36,000	30,000
Fair market value			939,989	984,332
Stapled securities on issue		386,752	386,752	386,752
Fair market value per Security			\$2.43	\$2.55
Net asset value per Security		\$2.75		
Net tangible asset value per Security		\$2.63		

Source: ABP, LCF analysis.

Note 1: Other assets include trade receivables (\$12.8 million) and other smaller investments in listed and other securities, and loans (\$3.3million).

Set out below are details of the basis of adjustments made by us.

15.2.3 Investment properties

The ABP investment properties comprise approximately 62% of the total assets of ABP as at 30 June 2011. These assets have been discussed in Section 11.2.1 above.

For reporting purposes as at 30 June 2011:

- independent valuations of approximately 60% by value of all investment properties (22 properties) were obtained;
- the remaining properties were valued internally using metrics in accordance with the independent valuations. The remaining properties were independently valued as at 31 December 2010; and

- the weighted average capitalisation rate for the portfolio and the stabilised weighted average occupancy level for the portfolio adopted in independent valuations differed little from historical measures:

Table 70 – Summary statistics regarding investment properties

As at	30-Jun	31-Dec	30-Jun	31-Dec	30-Jun
\$'000	2011	2010	2010	2009	2009
Weighted average capitalisation rate for the portfolio	8.5%	8.5%	8.5%	8.5%	8.5%
Stabilised weighted average occupancy level for the portfolio	92.8%	91.4%	94.6%	95.5%	90.3%

Source: Various ASF annual financial statements, investor Presentations and Updates.

Note 1: Includes Virginia Park, childcare, inventory & PP&E assets and excludes development assets.

We analysed a sample of ABP's external and internal valuations of investment properties as at 30 June 2011 and subsequently. Independent valuations of all of ASF's investment properties have been undertaken during the 12 months to November 2011 and the 12 months to 30 June 2011 (refer discussion Section 11.2.1 above). Accordingly, 55% of ABP's property portfolio has been independently revalued in the last six months and nearly 100% of properties have been independently valued in the last twelve months.

In regard to the independent valuations reviewed, we concluded that:

- the external property valuers are independent from ABP based upon statements included in the valuation reports;
- there were no restrictions on the scope of the valuations;
- the reports were prepared by professionals who have sufficient qualifications and competence to provide an informed opinion of the fair market value of assets of this nature;
- the valuation methods used in the property valuations are not inappropriate and appear to have been correctly applied to estimate the fair market values of the properties;
- the assumptions and valuation metrics used do not appear unreasonable or inappropriate for the purpose of estimating the fair market values of the properties; and
- nothing has come to our attention that would cause us to make any adjustments for any valuation movements since 30 June 2011.

All properties not independently revalued have been subject to internal valuation. Valuations conducted post 30 June 2011 have not had a material impact the total carrying value of investment properties as at 30 June 2011.

In our opinion, as

- materially all of the properties have been externally (independently) valued within the last twelve months; and
- the recent review as at November 2011 of properties not valued at 30 June 2011 did not result in a material adjustment to the total carrying value of investment properties,

the carrying value of the properties as at 30 June 2011 reflects their fair market value. Accordingly, in our opinion, no adjustment to the carrying values as at 30 June 2011 is warranted for the purposes of this Report.

15.2.4 Valuation of funds management business

With a view to considering whether the net assets attributed to the funds management business as at 30 June 2011 adequately captures the fair market value of the business for the purposes of this Report, we have valued various aspects of the business.

We have valued ABP's loans to the Funds, net of any liability for "Underwritten Capital Return", together with its direct and indirect equity investments in the Funds at between \$240.9 and \$268.5 million. This compares ABP's various investments in the Funds, comprising direct and indirect (i.e. via joint venture) equity and loans of \$282.6 million, including a liability of 10.0 million for the capital guarantee.

In addition, we have valued ABP's property and fund management rights at between \$14.1 and \$18.0 million. ABP does not value these future management rights for the purposes of its financial statements.

Our assessed range of values for the funds management business of \$240.9 and \$268.6 million (mid-point \$254.8 million) and this compares to the book value of the Funds Management business as at 30 June 2011 of \$282.6 million.

Table 71 – Assessed value of ABP's investment in the funds management business

\$'000	Ref	Low	High
ABP's various investments in the Funds as at 30 June 2011	Table 20	323,204	323,204
Less: non-ABP equity interest in joint ventures		(14,636)	(14,636)
Less: Joint venture debt		(15,937)	(15,937)
ABPS' interest in direct and indirect investment in the Funds		292,631	292,631
Less: Underwritten Capital Return Liability		(10,000)	(10,000)
ABPS' net interest in the Funds as at 30 June 2011		282,631	282,631
Less: LCF revaluation of loans and equity investments, net of tax		(55,769)	(32,067)
Assessed value of ABP's interests in the Funds		226,862	250,564
Add: LCF valuation of property and fund management rights		14,100	18,000
Assessed value of ABP's Fund Management business		240,962	268,564

Source: ABP, LCF analysis.

Factors we have considered in determining our range of values for ABP's interest in the funds management business include:

- the net asset position of each Fund as at 30 June 2011, including:
- the underlying property valuations and the likelihood of continuing volatility and uncertainty in property markets and values into the foreseeable future;
- the terms and conditions of external and ABP interest bearing debt and total credit facilities available to each Fund;
- the relatively high level of gearing in a number of the Funds and the related interest cover;
- the mark-to-market valuation of any material derivatives held by the Funds;
- the adequacy of working capital and working capital facilities;
- the financial performance of each Fund for the two years ended 30 June 2011, including the level of financial support provided by ABP, if any; and
- the unit price of each Fund, and the pro-forma unit price of each Fund taking into account the conversion of the various AWCF into equity (assuming winding-up as at 30 June 2011) and the affect of any ABP guarantees.

After considering these factors we have reduced ABP's loans and equity investments in the Funds in the range of \$32.1 to \$55.8 million. We have tax-effected these write-downs to reflect the likely timing and recovery of any tax benefit.

Other factors we have considered in determining our range of values of ABP's property and fund management rights include:

- the terms and conditions of existing property and fund management fees;
- the likely duration of existing property and fund management rights. In this regard we note that various funds are due to have meetings of Securityholders to determine the future of the relevant Fund (including potentially winding up the Fund) as follows:
- AHF: 2012;
- ASF: 2013; and
- ADIF II: 2017.

Accordingly, the potential term of the property and fund management rights is likely to be limited in regard to these funds and, in all likelihood, the other Funds as well.

- the implications of ABP's acting as manager, lender and investor to the Funds, and the implications this may have on the value a third party may place on those rights; and
- historic levels of property and fund management fees for the three years ended 30 June 2011;
- the likely levels of growth in property and fund management income in the current environment; and
- the appropriate discount and/or capitalisation rates to apply to these rights.

After considering these factors we have valued ABP's funds management rights in the range of \$14.1 to \$18.0 million adopting a discount rate of 14%pa. We have tax-effected these write-downs to reflect the likely timing and recovery of any tax benefit.

15.2.5 Valuation of property ventures

With a view to considering whether the net assets attributed to the property ventures activities as at 30 June 2011 adequately captures the fair market value of the activities for the purposes of this Report, we have valued various aspects of the business, namely various loans and equity or profit share interests.

Background

In valuing the Property Ventures activities, we note the following:

- the majority of the income in more recent years (FY2011 and FY2010) has been interest arising from the loans advanced;
- the majority of the interest is recorded as an accrual, but is capitalised during the duration of the relevant project and only paid in cash upon successful completion of any re-zoning and /or construction and sale of the project;
- projects can take some time from initial investment to realisation and receipt of proceeds; and
- projects are not always profitable. There are a number of risks, including the risk of achieving the desired rezoning and construction risks where construction is under taken.

Having regard to the above, in our opinion, it is not appropriate to value the Property Ventures activities on a capitalisation of earnings basis. Instead, we have adopted a net assets based valuation approach and considered the appropriateness of the carrying values of the assets of the Property Ventures activities.

The assets of the Property Ventures activities are essentially, loans at interest advanced to various parties and equity or profit share interests in various projects.

Loans

We reviewed information relating to the carrying values of the loans as at 30 June 2011 and made enquiries as to whether anything material has changed in regards to the loans since that date. Having regard to the information considered, in our opinion, the loans are advanced at interest rates that reflect a commercial rate having regard to the associated risks and appropriate consideration was given to any required impairment of the loan carrying balances as at 30 June 2011 and nothing has come to our attention to suggest that any post 30 June 2011 event has occurred that would render the carrying values inappropriate.

Notwithstanding the above, having regard to the uncertainties surrounding some of the loans, and that we are considering what a willing buyer may be prepared to pay in a transaction, we have adopted as the high end of a range of values, the carrying value as at 30 June 2011 and as the low end of a range of values, an amount reflecting a reduction of \$1.5 million of the carrying value as at 30 June 2011.

Equity and profit share interests

We discussed with Property Ventures management the projects in which ABP has an equity or profit share interest, with a view to determining the extent of the allowance, if any, that should be made to reflect any increased value of the projects above carrying value. We considered the likely time frames and risks and estimated values based on current valuations and risk and time adjusted values and the amount that in our opinion a hypothetical purchaser of ABP may be prepared to pay, in order to determine if any allowance should be made and the extent of the same.

It is noted that ABP comprises taxable and non-taxable entities. Abacus Trust and Abacus Income Trust are not liable to Australian income tax provided security holders are presently entitled to the taxable income of the Trusts and the Trusts generally distribute their taxable income. AGHL and its Australian resident wholly-owned subsidiaries are taxable and have formed a Tax Consolidation Group.

The equity or profit share interests are held in the taxable entities of the ABP. Therefore, income/ capital gains tax may be payable upon any equity or profit share interests.

As at 30 June 2011, ABP had:

- income tax losses for which no deferred tax asset is recognised on the balance sheet of gross \$6.46 million (2010: \$3.59 million), which are available indefinitely for offset against future income gains subject to continuing to meet relevant statutory tests; and
- unrecognised deferred tax assets (temporary differences) on capital account in relation to the fair value of investments (\$2.2 million gross) and fair value of investment properties (\$3.8 million gross) (2010: \$11.1 million).

Having regard to the above, we have made an allowance for taxation on any increased value of the projects above carrying value at the full statutory tax rate of 30%, recognising that ABP is likely to pay some amount of tax on any realised increase in value and having regard to our estimate of the allowance that a hypothetical willing purchaser would be willing to make in this regard.

Based on our analysis, and the matters discussed above, we have made an allowance in respect of the assessed after tax incremental value of assets held in the Property Venture activities over and above the carrying values as at 30 June 2011 of between \$10.5 million and \$13.5 million, with a mid-point of \$12.0 million.

Conclusion

For the purposes of this report, we have assessed the fair market value of the property ventures business in the range of \$227.5 and \$232.0 million, assessed as follows:

Table 72 – Property ventures fair market value

\$'000	Ref	Low	High
Property related inventory	Table 21	34,489	34,489
Total property loans and other financial assets	Table 21	161,409	161,409
Fair market value adjustment		(1,500)	-
Fair market value of Property Venture Loans		159,909	161,409
Property Venture equity or profit share interests as at 30 June 2011	Table 21	10,642	10,642
Fair market value adjustment		10,500	13,500
Fair market value of equity or profit share interests		21,142	24,142
Allocation of other property / co-investments	Table 21	11,936	11,936
Total value of Property Ventures		227,476	231,976

Source: ABP and LCF analysis

15.2.6 Goodwill and intangibles

Goodwill relates to goodwill acquired in business combinations and is measured at cost less accumulated impairment losses which are assessed annually. Goodwill of \$32.5 million relates mainly to the initial stapling of AGHL and AT, and the internalization of AFML, the responsible entity of AT and subsidiary of AGHL in the Group in 2002.

For the purposes of this Report, we have ignored this book value of goodwill in our assessment of fair market value as we have considered the goodwill value, if any, in our assessment of the funds management and property ventures businesses.

Other intangibles include the Group's deferred tax asset of \$12.5 million, and gaming and liquor licences (\$2.7 million). For the purposes of this Report, we have assessed the deferred tax asset in the range of 25% and 75% of its book value to recognise the likely timing and uncertain realisation of this asset.

For the purposes of this Report, we have assessed the gaming and liquor licences at book value that is \$2.7 million.

15.2.7 Interest rate swaps

ABP manages interest rate exposure on bank debt facilities through the use of interest rate swap contracts. At 30 June 2011, approximately 58% million of interest-bearing borrowings were hedged.

The swap contracts were recorded in the financial statements as at 30 June 2011 at fair value, based on market prices obtained from the banks providing the swaps. As at 30 September 2011, the market value of the interest rate swaps had deteriorated by approximately \$15.0 million.

In our assessment of the value of ABP we have adjusted the value of the interest rate swaps to the position as at 30 September 2011.

15.2.8 Corporate costs

We have estimated the controlling interest fair market value of ABP on a net assets basis. In this type of valuation, it is necessary to consider if an allowance should be made for the costs of operating the ABP business.

ABP's corporate costs were approximately \$21.8 million in FY2011, \$20 million in FY2010 and 18 million in FY2009. These costs included directors' fees, staff salaries and wages, rent, audit and listing fees and other general operating costs.

The valuation of ABP's assets do not reflect these corporate costs and therefore a separate allowance has been made to account for this additional costs which would be incurred assuming that the business continues as a going concern, but under the basis of valuation adopted, (i.e. a controlling interest basis), where a hypothetical purchaser of ABP may be assumed to have existing resources, but would have to incur some additional costs to manage the acquired business.

We have estimated an amount of ongoing corporate costs necessary to manage the acquired business, but after allowing for the inevitable reductions in costs that would attend a (theoretical) takeover of ABP by a hypothetical purchaser of ABP. In this regard, as we have assessed the value of both the funds management and property ventures businesses on the basis of assuming that they effectively would be wound down over time (and do not represent businesses that should be valued on the basis of capitalised maintainable earnings), based on discussions with management, we have allowed for a reduction in the cost base over time. Our commencing (year 1) reduced cost base is estimated at approximately \$6.7 million (pre-tax), reducing to approximately \$5.7 million within 4 years, as the funds management and property ventures businesses are assumed to be wound down.

We have applied a capitalisation rate in the range of 5.0 to 6.0 times (pre-tax) to the assessed commencing (year 1) reduced ongoing corporate costs estimated at approximately \$6.7 million (pre-tax) to incorporate a capitalised value in the sum-of-the-parts valuation. The above capitalisation rate incorporates our assessment of the future maintainable earnings of ABP and the likelihood that this cost base would reduce over time under the assumption of a hypothetical purchaser of ABP, as discussed above.

Based on the above, we have adopted present value of capitalised corporate costs of between \$30.0 million and \$36.0 million.

15.3 Relationship of valuation of New Stapled Securities and ABP Securities

The assessment of the fairness of the Merger to Participating ASF Securityholders requires the comparison of the fair market value of ASF Securities (on a control basis) with the fair market value of the Consideration (that includes the fair market value of the ABP Security component assessed on a minority basis).

Accordingly, we have considered below the value of ABP Securities on a minority basis.

ABP is listed on the ASX, is adequately covered by a number of broking analysts and has sufficient trading liquidity (refer Section 11.12.2). Accordingly, market practice suggests that recent market trading prices of ABP Securities may be used as the basis for determining the fair market value (on a minority interest basis as required by RG 111) of the scrip component of the Consideration offered to Participating ASF Securityholders.

Our analysis of the recent market trading of ABP Securities is set out in Section 11.12.1.

We also considered whether the market trading prices of New Stapled Securities after implementing the Merger is likely to differ materially from the market trading prices of ABP Securities prevailing before the Merger, simply as a result of implementing the Merger. This matter is discussed more fully in Section 14.2.

We note that the implied “premium for control” implied in our assessed fair market value mid-point (\$2.49) over the range of recently traded VWAP of \$1.90 to \$2.00 (refer to Section 11.12.1) for ABP Securities is 24.5% to 31.1%. In our opinion, this implied range of “premium for control” is not inconsistent for entities such as ABP.

If we were required to determine the minority interest value of ABP Securities by having regard to the fundamental control value assessed by us, it is necessary to assess the likely:

- discount to net assets/net tangible assets; and
- earnings/ distributions yields,

that the market would apply to the Merged Group if the Merger is implemented, as compared with that applied to ABP before the Merger is implemented.

Given that the measures of ABP pro-forma net assets, net tangible assets, and pro-forma FY2011 earnings and distributions differ little between the pre and post Merger scenarios, in our opinion, the likely discount to net assets/net tangible assets and earnings/ distributions yields that the market would apply if the Merger is implemented, as compared with those applied before the Merger is implemented, are unlikely to materially alter in an adverse fashion. If anything, in our opinion, there may be some prospect that ABP/ the Merged Group would be re-rated positively, so as to trade at lower asset discounts or lower earnings/distributions yields.

However, in this Report we do not rely on such a rerating occurring. Also, it may be the case that any positive rerating would be delayed until other aspects of the ABP funds management activities that it appears the market has concerns with, are successfully resolved. In a sense, the Merger, dealing only with ASF, is an “easy” first step in addressing the funds management activities and investments.

Based on the analysis of the pro-forma net assets and net tangible assets, pro-forma FY2011 earnings and distributions, and prospects of ABP after implementing the Merger, as compared with those matters before implementing the Merger, in our opinion, the market trading price of New Stapled Securities after implementing the Merger should not differ materially from the market trading price of ABP Securities before the Merger, simply because the merger has occurred.

It should be noted the market trading price of ABP Securities is subject to volatility, both in the period before the proposed meetings of Securityholders and subsequently. There is an asymmetry in approach between determining the value of ASF Securities on a controlling interest basis on a fundamental valuation methodology (i.e. adjusted net tangible assets) and determining the value of the scrip component of the Consideration offered for the ASF Securities on a minority interest basis on a market trading valuation methodology. However, the market-trading price of ABP Securities represents the most available assessment of the cash equivalent value of the scrip component of the Consideration (excluding any taxation considerations) that will be received by Participating ASF Securityholders.

16 Valuation of ASF

16.1 Approach

We have assessed whether the proposal is fair to Participating ASF Securityholders by comparing the assessed fair market value of an ASF Security (assuming 100% control) with the assessed fair market value of the Consideration offered for an ASF Security. As the consideration is composed partly of ABP Securities, we have assessed the fair market value of an ABP Security (on a minority interest basis). The cash component has been assessed at its face value.

In our selection of an appropriate methodology to estimate the fair market value of an ASF Security we have considered common market practice and the valuation methodologies recommended by RG 111, which are summarised in **Appendix 3**.

Our estimate of the fair market value of an ASF Security has been assessed using the net assets on a going concern valuation approach.

Our valuation has not been premised on:

- the existence of a special purchaser; or
- any potential impact on the current value of an ASF Security that may arise as a consequence of the existing capital structure of ASF.

Such factors have been considered in our assessment of whether the Merger is reasonable.

Our assessment of the fair market value of an ASF Security is set out below.

16.2 Fair market value of ASF

We estimate the fair market value of an ASF Security to be between \$1.24 and \$1.25, as set out in Table 73 below.

We have estimated the fair market value of an ASF Security by estimating the ASF NTA on a going concern basis by aggregating the fair market value of investment property assets as well as any other related assets and deducting liabilities. In applying this approach, we have considered the following:

- ongoing management and other costs associated with realising the value of the assets on a going concern basis over the medium term; and
- the underlying property valuations used in the audited financial statements and in particular, the comments noted in Section 12.9.2 above.

We adopted the audited ASF net assets as at 30 June 2011 and considered any adjustments required to reflect the an estimate of the fair market value as compared with the book value of the ASF net assets.

Table 73 Fair market value of an ASF Security (control basis)

\$'000	Ref	Note	Low	High
Fair market value of ASF net assets				
ASF statutory net assets as at 30 June 2011	Table 54	1	115,518	115,518
Fair market value adjustments				
Add-back: debt eliminated on conversion of ASF AWCF	Table 54	2	28,316	28,316
Less: change of control payments triggered - Storage King termination fee	12.6.4	3	(1,486)	(1,486)
Less: recoup reduced management fees (ASFML & Storage King)	12.6.2, 12.7.1	4	0	0
Add-back: amount arising from discounting deferred tax liability	Table 75	5	1,873	2,935
Less: Performance fee		6	0	0
Less: Unamortised finance cost asset		7	(1,955)	(1,955)
Gain/ (loss) on derivatives (June to September 2011)		8	(3,658)	(3,658)
Fair market value of ASF net assets (control basis)			138,608	139,670
Adjusted ASF Securities			'000	'000
ASF Securities on issue as at 30 June 2011	Table 55, Table 60		87,276	87,276
Add ASF Securities issued upon conversion ASF AWCF	Table 60	9	24,092	24,092
Adjusted ASF Securities			111,367	111,367
Fair market value per ASF Security (control basis)			\$1.24	\$1.25

Source: LCF analysis

16.2.1 Notes to Table 73

The explanatory notes to Table 73 are set out below.

Note 1 Components of net assets as at 30 June 2011

Investment properties

The ASF investment properties comprise approximately 98% of the total assets of ASF as at 30 June 2011. These assets have been discussed in Section 12.9.1 above.

For reporting purposes as at 30 June 2011:

- independent valuations of approximately 60% by value of all investment properties (22 properties) were obtained;
- the remaining properties were valued internally using metrics in accordance with the independent valuations. The remaining properties were independently valued as at 31 December 2010;
- the weighted average capitalisation rate for the portfolio and the stabilised weighted average occupancy level for the portfolio adopted in independent valuations differed little from historical measures:

Table 74 – Summary statistics regarding investment properties

As at	30-Jun	31-Dec	30-Jun	31-Dec	30-Jun
\$'000	2011	2010	2010	2009	2009
Weighted average capitalisation rate for the portfolio	9.2%	9.1%	9.1%	9.1%	9.1%
Stabilised weighted average occupancy level for the portfolio adopted in independent valuations	90.2%	90.0%	91.0%	92.0%	92.0%
Average occupancy across the portfolio	84.8%	84.4%	83.0%	86.0%	84.0%

Source: Various ASF annual financial statements, investor updates and other public documents.

Note 1: The impact of AUD / NZD FX rate revaluations against rates at acquisition date have been measured and reported separately on a net basis in the foreign currency translation reserve.

We reviewed a sample of external valuations of ASF's investment properties and ASFML's internal valuations as at 30 June 2011. Independent valuations of all of ASF's investment properties have been undertaken during the 12 months to 30 June 2011 (refer discussion at Section 12.9.2 above).

In regard to the independent valuations reviewed, we concluded that:

- the external property valuers are independent from ASFML based upon statements included in the valuation reports;
- there were no restrictions on the scope of the valuations;
- the reports were prepared by professionals who have sufficient qualifications and competence to provide an informed opinion of the fair market value of assets of this nature;
- the valuation methods used in the property valuations are not inappropriate and appear to have been correctly applied to estimate the fair market values of the properties;
- the assumptions and valuation metrics used do not appear unreasonable or inappropriate for the purpose of estimating the fair market values of the properties; and
- nothing has come to our attention that would cause us to make any adjustments for any valuation movements since 30 June 2011.

However, we note that, generally speaking, there may be potential for upwards revaluations over the medium term due to a number of factors, but including:

- continued revenue growth; and
- potentially, reductions in valuation yields adopted.

Other assets

The other assets as at 30 June 2011 comprise cash (1.2% of total assets) and other minor assets whose values are unlikely to materially alter.

Current liabilities

The current liabilities include an allowance for then distribution payable in respect of the fourth quarter of FY2011 (paid 8 August 2011). Other current liabilities comprise items whose values are unlikely to materially alter.

Notes 2 & 9 ASF AWCF

The ASF AWCF may be converted into additional ASF Securities (refer Section 12.9.5 above). It is assumed that the ASF AWCF is converted and the fair value of the ASF net assets is increased by the amount of the debt outstanding as at 30 June 2011. Conversely, the number of ASF Securities will also increase according to the contractual terms of conversion.

Note 3 Change of Control Payments Triggered - Storage King Termination Fee

Under the test of "fair" as propounded in RG111 and our understanding how this is interpreted by ASIC, the independent expert is required to consider the price that would be paid for ASF by a hypothetical willing arm's length buyer seeking to acquire ownership of all of the equity in ASF. In our view, the likely universe of such buyers would include those having their own self-storage management capability and would not require the services of Storage King. On the other hand, it is possible that such a buyer would desire to retain the services of a similar operator as an alternative to Storage King, as it is generally acknowledged that organisations such as Storage King do have various skills and capabilities that may add value to a self-storage facility.

We have adopted in the calculation of the value an assumption that the services of Storage King would not be required and that Storage King would be paid the previously agreed fee upon termination of its services.

Note 4 Recoup reduced management fees (ASFML & Storage King)

For the reasons set out in Section 12.6.2 and 12.7.1 above, as at 30 June 2011 reduced management fees were not payable (and have not been paid) and accordingly, we have not made any allowance for this item.

Note 5 Deferred tax liabilities as at 30 June 2011

Under the test of “fair” as propounded in RG111 and our understanding how this is interpreted by ASIC, the independent expert is required to consider the price that would be paid for ASF by a hypothetical willing arm’s length buyer seeking to acquire ownership of all of ASF.

We have adjusted the reported net assets by adding back to the net assets, a discounted value of the deferred tax liabilities recorded under the Australian Accounting Standards. This adjustment reflects our assessment of the market value of this liability and makes allowance for the following factors:

- tax may only be payable when properties are sold and on a going concern basis, these properties may not be sold by the relevant holding entity for a number of years, if ever; and
- there are ways in which sale transactions may be structured which could significantly reduce tax payable on a sale compared to the recorded book value of this liability.

Generally, investment properties are usually held within a trust, even in a stapled entity, and the trust usually pays no tax. Distributions to investors are taxed in their hands. In such circumstances, as the trust does not pay tax, any deferred tax liabilities usually reflect timing differences that will reverse in future periods and not reflect the value of tax losses. Given the usual nature of these deferred tax liabilities, it is normally the case in valuations based on net assets on a going concern valuation method (such as adopted in this Report) to make no adjustment to the valuation of the entity for these liabilities.

However, in the case of ASF, ABP advised that the deferred tax liabilities mostly relate to the fair value gain on revaluation of U-Stow-It properties (\$4.0m of the \$4.3m). The U-Stow-It properties are held in a company rather than a trust structure (refer Section 12.9 above).

It is possible that, instead of transferring the properties, the relevant U-Stow-It company would be transferred, or the holding entity of that company would be transferred, thus avoiding incurring capital gains tax liabilities by the owner of the properties upon a transfer of the properties. This arrangement occurred at the time of the acquisition of the Additional Properties, when ASF acquired the relevant U-Stow-It company, rather than acquiring the properties directly. Accordingly, it is possible that these liabilities may not be realised for some considerable time, at least until the relevant U-Stow-It company transfers the relevant properties.

On the above basis, we are of the opinion that the full amount of these liabilities should not be deducted for the purposes of assessing the fair market value of the ASF net assets as at 30 June 2011 for the purposes of the “fair” test under RG111.

In respect of the deferred tax liability, we observe the following:

- if the properties are held in perpetuity, a capital gain would never materialise;
- it is possible that ASF may be wound up by approximately 31 December 2013. Depending on the mechanism for the sale of the relevant assets, this may cause payment of capital gains tax upon the winding up;
- while a potential purchaser of the assets would seek to structure an acquisition in a tax efficient manner, holding the relevant assets in accompany structure has some tax disadvantages. As discussed above, real estate assets are often held in trusts and not companies; and
- we consider that a potential purchaser of ASF would factor in a discount to take account of a tax liability that may ultimately be crystallised that would be less than the book value as at 30 June 2011.

We have considered the possible time periods over which these liabilities may be realised, ranging from never to as short a period as one year and the range of possible discounted values of the liabilities, as follows;

Table 75: – Range of possible discounted values of the deferred taxation liabilities

Parameter	Range of Measure				
	0.0	1.0	5.0	10.0	15.0
Period (years)					
Discount rate	12.0%	12.0%	12.0%	12.0%	12.0%
Discounted deferred taxation liabilities (\$)	4,329,000	3,865,179	2,456,391	1,393,822	790,892
Adjustment – add-back to net assets (\$)	0	(463,821)	(1,872,609)	(2,935,178)	(3,538,108)

Source: ASF FY2011 financial statements and LCF analysis.

Having regard to the uncertainties regarding the timing of realisation, we have adopted in the calculation of the low value, an assumption that the deferred tax liabilities are realised in 5 years time and in the calculation of the high value, an assumption that the deferred tax liabilities are realised at the end of a 10-year period.

No other capital gains tax liabilities are expected on the disposal of any other ASF investment properties for the foreseeable future.

Note 6 Performance fee

ASF may be required to pay to the RE a Performance fee upon the occurrence of a Liquidity Event, if AFML is entitled to charge it and does so charge it.

There are many considerations as to whether any acquisition of ASF would proceed by way of a takeover offer, or a realisation of the ASF assets, including that lesser stamp duty and other costs that may be payable under the former and differing risks of acquiring securities as distinct from assets.

Under the test of “fair” as propounded in RG111 and our understanding how this is interpreted by ASIC, the independent expert is required to consider the price that would be paid for ASF by a hypothetical willing arm’s length buyer seeking to acquire ownership of all of ASF. This could occur in a number of ways, but the fundamental economic and legal forms would comprise either a takeover offer for all the ASF Securities or the purchase of all the investment properties and other relevant assets (such as property, plant and equipment).

Having regard to the uncertainties regarding whether any acquisition of ASF would proceed by way of a takeover offer, or a realisation of the ASF assets, we have adopted in the calculation of the fair market value of ASF Securities an assumption that the Performance fee would not be payable (i.e. that the ASF Securities, and not the investment properties will be sold).

Note 7 Unamortised finance cost asset

An amount of \$1.955m representing the value of the unamortised finance costs is deducted from the amount of the bank borrowings in the ASF statement of financial position as at 30 June 2011. The deduction of this amount effectively reduces the net amount of the bank borrowings disclosed and increases the disclosed net assets of ASF.

In normal circumstances, on a going concern basis, this amount would be amortised as an expense to the income statement over the remaining life of the relevant borrowings (i.e. up to August 2013).

On the assumption of an immediate termination of the borrowings (such as by way of refinancing) and that no break costs would be payable, the amortisation charge would not be incurred. However, the amount of the debt repayable would be the higher amount before the deduction of the unamortised finance costs.

We have adopted as the amount of the bank borrowings of ASF, the full amount, before deduction of the unamortised finance costs. This results in a higher liability than the net liability disclosed in the statement of financial position as at 30 June 2011.

16.3 Other matters

16.3.1 Net cash flows up to Implementation Date

We note that the net assets as at 30 June 2011 do not include any allowance for net cash flows expected between 30 June 2011 and the Implementation Date of the Merger. The Implementation Date is likely to be sometime in February 2012, by the time relevant meetings of Securityholders are held.

We note that:

- ASF has paid the quarterly distributions for the periods ended 30 June and 30 September 2011;
- historically, the ASF quarterly distributions have generally equated with the net operating cash flows of ASF;
- if the Merger is approved:
- ASF Securityholders will be entitled to receive their normal distributions for the period to 31 December 2011;
- ASF Securityholders will not receive any accrued distribution for ASF post 31 December 2011. However, they will receive their full proportionate entitlement as holders of New Stapled Securities in the Merged Group in respect of the six months period from 1 January 2012 to 30 June 2012 for New Stapled Securities they receive under the Merger;
- the Merger Distribution will be paid on the Implementation Date (as defined in the Explanatory Memorandum); and
- if the Merger is not approved then there will be no Merger Distribution and the respective distribution and other entitlements of ABP and ASF Securityholders will remain as they are currently.

Having regard to the above, we have not made any valuation adjustment for net cash flow movements up to Implementation Date.

16.3.2 Movements in financial assets

Financial derivatives

ASF's policy is to manage its interest cost using a mix of fixed and variable rate debt. The aim is to keep between 60% and 100% of borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, ASF enters into interest rate swaps, in which ASF agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2011, after taking into account the effect of interest rate swaps, approximately 77.9% of the Fund and Trust's borrowings are subject to fixed rate agreements (2010: 83.7%).

Impact of change of exchange rate

ASF is exposed to currency risk on its investment in foreign operations denominated in New Zealand dollars ("**NZD**"). As a result ASF's balance sheet can be affected by movements in the AUD/NZD exchange rate.

The NTA as at 30 June 2011 is based on a year-end AUD/NZD FX rate per the RBA: AUD1.00 = NZD1.2953 (30 June 2010: RBA: AUD1.00 = NZD 1.2308). We note that the AUD/NZD FX rate per the RBA as at 30 September 2011 was AUD1.00 = NZD1.2757 and as at 28 October 2011 was AUD1.00 = NZD1.3037.

ASF borrows loan funds in NZD to substantially match the foreign currency property asset value exposure with a corresponding foreign currency liability and therefore expects to substantially mitigate foreign currency risk on its NZD denominated asset values.

We reviewed the ASF management accounts financial statements for the 3 months ended 30 September 2011 and noted that there was little movement in the net fair values of financial assets and liabilities, apart from an increased liability in relation to derivatives of \$3.658m.

Therefore, for the purpose of our valuation we have adjusted the net assets as at 30 June 2011 for the change in the value of the derivatives as at 30 September 2011.

Management fees

An allowance for management fees is included in the cash flows used by the management and independent valuers in their valuations of the investment properties as at 30 June 2011. The allowance is sufficient to cover Storage King fees and some of the RE fees.

Management fees are not otherwise factored into the property valuations or in the financial position of ASF. Such fees would be payable as long as ASF and its investments were externally managed by Storage King or another like entity, and by an external RE.

Investment vehicle management fees (such as external RE fees) would typically be considered in assessing the value of a minority interest of an A-REIT. However, in the valuation of a controlling interest, generally no additional allowance for these costs is made in the valuation of all of the equity of the relevant vehicle because of factors such as the following:

- any hypothetical third party buyer considering purchasing ASF would be expected to have existing management capacity, and would be likely to incur only marginal costs in managing the relevant assets being acquired;
- existing arrangements with a RE are often able to be terminated relatively easily by a resolution of investors, which often results in the RE not receiving any compensation for these rights; and
- these costs are incurred for the purpose of improving the performance of an investment vehicle and therefore it can be argued that the ongoing costs associated with such services produce a return equal to or higher than the cost of providing those services.

In the circumstance where specific rights to a payment arises upon a change in control of the relevant investment entity, or upon termination of existing rights, it is appropriate to make an appropriate allowance for these costs in the valuation of all of the equity of the relevant vehicle. We have adopted this approach in regard to the Storage King termination fees (refer Note 3, Section 16.2.1) where we have specifically allowed for the Storage King termination fee in calculating our valuation ranges. In regard to the ongoing management fees of an operator similar to Storage King, we have not made any adjustment as we note that an allowance for such management fees is included in the cash flows used by management and independent valuers in their valuations of the investment properties.

We have not made any allowance for ongoing RE management fees.

Intangible assets

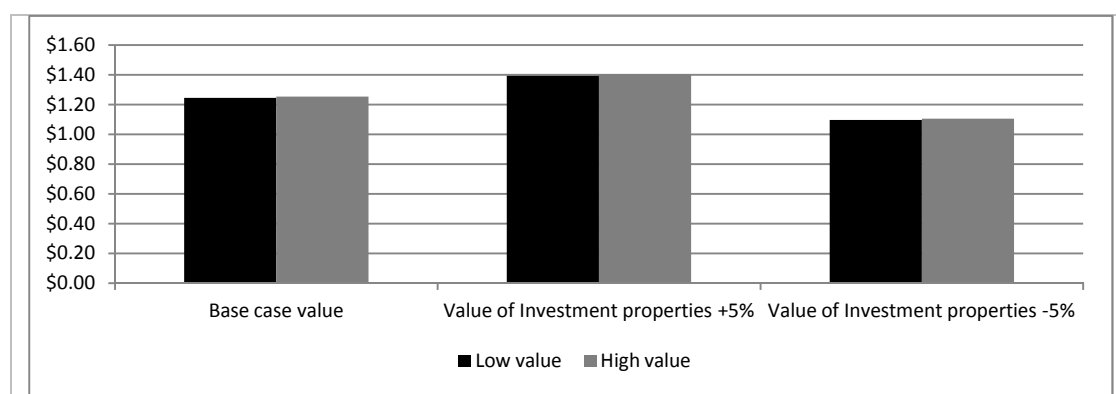
We are not aware of any intangible assets that are not otherwise incorporated in the accounts of ASF, which should be incorporated in the fair market value of ASF. In this regard we note that the property valuations effectively incorporate an element of business goodwill arising from the trading activities undertaken at each storage facility.

16.3.3 Sensitivity analysis

Given the relatively high level of gearing within ASF, the valuation is sensitive to relatively small movements in the underlying value of the investment properties. Broadly speaking, a +/- 5% movement in the value of the investment properties results in an approximate average impact of +/- 12% in the value of an ASF Security.

Our estimate of the impact of movements in the underlying valuations of the properties on the fair market value of an ASF Security is illustrated below:

Table 76 – Change in ASF Security value based on changes in value of investment properties



Source: LCF analysis

17 Assessment of Merger – ABP Securityholders

17.1 Approach

We have been requested to prepare a Report advising whether, in our opinion, the Merger is fair and reasonable and in the best interests of ABP Securityholders.

We have assessed whether the proposal is fair to ABP Securityholders by comparing the total value of the:

- proportion of an ABP Security offered for each ASF Security (assessed at its fair market value on a control basis), plus
- the cash component of the Consideration offered for each ASF Security (assessed at its face value)
- with the assessed fair market value of an ASF Security.

In order to assess whether the Merger is reasonable, we considered whether the Merger is “fair” and if it not, whether we consider that there are sufficient reasons for the ABP Securityholders to accept the Merger. This assessment has largely been undertaken by considering whether in our opinion, the advantages of the Merger sufficiently outweigh its disadvantages for the ABP Securityholders.

To assess whether the Merger is in the best interests of ABP Securityholders, we have adopted the test of whether the Merger is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in RG 111, after considering whether there are sufficient reasons for ABP Securityholders to vote in favour of the Merger.

17.2 Fair

Our assessment of whether the proposal is “fair” is set out below:

Table 77 – ABP Securityholders – Fair

	Ref	Note	Low	High
			\$/Security	\$/Security
Assessed fair market value of an ABP Security (control basis)	A		1.90	2.00
Merger (exchange) ratio (ABP Security per ASF Security)	B		0.538	0.538
Value of proportion of ABP Security per ASF Security	C=AxB		1.02	1.08
Cash component of the Offer per ASF Security	D		0.14	0.14
Fair market value of Consideration per ASF Security	E=C+D		1.16	1.22
Assessed fair market value of an ASF Security (control basis)	F		1.24	1.25
Surplus / (deficit) of value of Consideration over value of an ASF Security	G=E-F		(0.08)	(0.03)
	H=G/F		(6.5)%	(2.4)%

Source: LCF analysis

As the fair market value of the Consideration per ASF Security (adopting a minority value of an ABP Security) is less than the fair market value of an ASF Security (on a control basis), in our opinion, the Merger is fair to the ABP Securityholders, in the absence of a superior proposal.

17.3 Reasonable

According to RG111, as the Merger is “fair”, it is automatically considered to be reasonable.

However, for completeness, we undertook an assessment of other aspects of the Merger for ABP Securityholders by considering the advantages and disadvantages of the Merger to ABP Securityholders.

Our assessment of these other aspects for ABP Securityholders is set out below.

Advantages

Advantages of the Merger include:

Raising capital at net tangible asset value

In implementing the Merger, ABP will issue approximately 37.6 million ABP Securities at an effective issue price of \$2.41 per security, being the pro-forma net tangible asset backing of ABP at 30 June 2011. The number of Securities to be issued under the Merger represents approximately 8.9% of the Merged Group’s expanded issued capital.

Although less than our assessed range of fair market value of an ABP Security (on a control basis) (of between \$2.43 and \$2.55), the pro-forma net tangible asset backing of an ABP Security (of \$2.41) compares favourably with recent VWAP market trading prices (in the range of \$1.90 to \$2.00).

Listed A-REITs undertaking equity issues in the last 12 to 18 months have generally done so at considerable discounts to their respective NTAs (Table 78).

Table 78 – Recent A-REIT Equity issues

Comparables	Date Announced	Amount Raised (\$m)	Percentage of Market Cap	Premium/(Discount) to	
				Closing Price	NTA
Astro Japan Property Group	11 Mar 11	23.6	14.4%	(4.3)%	(45.3%)
Bunning’s Warehouse Property Trust	17 Feb 11	149.6	19.3%	(6.6)%	(13.3%)
Commonwealth Property Office Fund	11 Nov 10	274.0	15.1%	(4.4)%	(24.6%)
CFS Retail Property Trust	24 Sep 10	540.0	10.9%	(4.6)%	(7.9%)
ING Real Estate Entertainment	16 Jul 10	36.4	211.9%	1.1%	(81.6%)
Brookfield Aust. Opportunities Fund	10 Jun 10	30.4	262.9%	2.0%	(86.8%)
Macquarie DDR Trust	7 May 10	198.9	343.3%	(14.1)%	(83.0%)
Lend Lease Corporation Limited	25 Feb 10	806.0	18.5%	(18.7)%	93.0%
Devine Limited	22 Feb 10	54.4	43.1%	(50.0)%	(76.0%)
Charter Hall Group	12 Feb 10	195.0	34.4%	(13.9)%	9.1%
Charter Hall Group	12 Feb 10	110.0	19.4%	(7.3)%	17.4%
Cromwell Group	24 Dec 09	73.0	14.1%	(5.4)%	(8.4%)
Abacus Property Group	11 Dec 09	91.0	14.5%	(3.6)%	(35.5%)

Source: LCF analysis

Arguably, if ABP were to raise capital in the market to buy ASF for cash, it would have to do so at a price less than its then current traded price, at a significant discount to its NTA as at 30 June 2011, and our assessed fair market value (on a control basis).

By acquiring ASF using ABP Securities valued at NTA to calculate the exchange ratio, recognising that both ABP and ASF are valued using their respective NTAs, ABP has valued its securities at greater than their current market trading price, but less than our assessed range of fair market value (on a control basis).

Portfolio diversification

If the Merger is implemented, ABP Securityholders will acquire a direct interest in one of Australia's largest portfolios of self-storage assets.

ASF's portfolio comprises 41 self-storage properties valued at \$332 million as at 30 June 2011. Acquiring this portfolio will increase the Merged Group's direct property assets as a proportion of total assets from approximately 60% pre-Merger to approximately 70% post Merger (on a pro forma basis) (refer columns B and C in Table 79). The increases in direct property asset percentages in columns D and E in Table 79 are the result of consolidation adjustments under AASB 10 & AASB 11.

Table 79: ABP – Direct property assets as a proportion of total assets as at 30 June 2011 (pro-forma)

	A	B	C	D	E
\$'000	ABP Statutory Actual	ABP Statutory Pro-forma	ABP and ASF Total Directly Owned Properties after Merger Pro-forma	ABP AASB 10 (excluding ASF) Pro-forma	Merged Group AASB 10 Pro-forma
Total assets	1,601,622	1,587,556	1,856,254	1,794,959	2,063,658
Property, plant and equipment	19,325	19,325	20,135	162,412	163,222
Inventory (Lewisham & Camellia)	45,989	45,989	45,989	45,989	45,989
Investment properties	844,258	844,258	1,175,391	1,098,128	1,429,261
Other property assets (Note 1)	61,574	61,574	61,574	61,574	61,574
Total Direct Property Assets	971,146	971,146	1,303,089	1,368,103	1,700,046
Direct Property Assets as % of Total assets	61%	61%	70%	76%	82%

Source: ABP

Note 1: Comprises ABP's direct interests in investment properties held through other entities being Virginia Park 232-262 East Boundary Road East Bentleigh VIC (50%), 350 George Street Sydney NSW (50%) and 32 Walker Street North Sydney NSW (25%).

The self-storage assets have a unique characteristic in that, in addition to owning a portfolio of property assets, ASF effectively also operates a self-storage business. ASF has outsourced the daily operation and management of the business to Storage King.

The self-storage business has a different risk/return profile to that of the underlying property assets. This can be seen in the fact that the weighted average capitalisation rate on the storage portfolio is 9.2% compared with 8.5% for the wider ABP portfolio. Storage assets typically have 'defensive' earnings profiles, scalable cost structures and developable net lettable area with relatively low capital expenditure per incremental NLA.

Recurring income stream

If the Merger is implemented, ABP Securityholders will acquire access to the underlying cash flows of the storage assets that have proved stable in varying economic conditions, including during the recent GFC and subsequently.

If the Merger is implemented, the total Rental and Storage income of the Merged Group's pro forma FY2011 income would increase from approximately 37% pre-Merger to approximately 47% post-Merger, adding significantly to ABP's recurring income profile.

Table 80 – ABP Rental and Storage income as a proportion of total income FY2011 (pro-forma)

\$'000	ABP Actual	ABP AASB 10 Pro-forma	Merged Group AASB 10 Pro-forma
Total income	201,009	258,751	292,403
Rental income	72,427	97,025	97,330
Storage income	1,052	1,052	40,812
Total Rental and Storage income	73,479	98,077	138,142
Total Rental and Storage income as % Total income	37%	38%	47%

Source: ABP, Explanatory Memorandum; LCF analysis.

Strategic re-positioning

ABP has a stated strategic objective of reweighting its overall portfolio to 70% direct core-plus property investments. By implementing the Merger, ABP's balance sheet reweights to the target ratio of 70% direct property and 30% other property investments.

Gross property assets will increase from approximately \$1.7 billion million to over \$2 billion and similarly directly owned property assets increases from approximately \$1 billion to around \$1.3 billion with greater diversity across geographical location and property sector.

Distributions maintained at pre-Merger levels

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse impact on distributions for ABP and ASF Securityholders arising from the Merger itself.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

Transaction costs

ABP will pay approximately \$10.9 million in cash (Merger Distribution and transaction costs) that is less in total than the notional duty cost had the transaction proceeded by way of a sale to ABP of the ASF storage assets portfolio.

Disadvantages

Disadvantages of the Merger include:

Gearing

If the Merger is implemented, the Covenant Gearing will increase from approximately 31.6% to approximately 37.6%. This increased level of gearing is still within the 50% gearing covenant prescribed by ABP's banks.

Net asset and net tangible asset backing

The net asset backing and net tangible asset backing per New Stapled Security decrease by \$0.03 and \$0.02 per security, respectively, from the position of an ABP Security before the Merger (ignoring the effect of AASB 10). This occurs mainly as a result of the distribution of cash to Participating ASF Securityholders and transaction fees associated with the Merger.

Negative impact on underlying earnings per security (EPS)

The pro forma underlying earnings per New Stapled Security (assuming the Merger was implemented on 1 July 2010) for the year ending 30 June 2011 is \$0.190. The underlying earnings per ABP security for the same period is \$0.194, representing a nominal decrease of 2%, in part as a result of the U Stow It Holdings Limited ("**USI**") self storage assets being held by a company. This is not expected to impact distributions.

Taxation

The following comments are our expectations of tax for ordinary Australian taxpayers, but cannot be considered tax advice. While there are not expected to be any tax consequences from implementing the Merger, as a result of making stapling distributions there is a reallocation of the cost bases of each component parts of ABP and ASF securities among the component parts of the New Stapled Securities. Full details are set out in the Explanatory Memorandum.

Tax consequences depend on individual circumstances. ABP Securityholders should seek their own taxation advice.

17.3.1 Conclusion on “reasonable”

For the reasons set out above, in our opinion, as the Merger is “fair”, in the absence of a superior proposal, it is also “reasonable” under RG 111 guidelines. Also, having regard to the other aspects of the merger for ABP Securityholders, in our opinion, there are sufficient reasons for the ABP Securityholders to approve the Merger and accordingly, in our opinion, the Merger is “reasonable” to ABP Securityholders.

17.4 Overall Conclusion

In our opinion, for the reasons stated above, the Merger is “fair” and is “reasonable” to Securityholders, in the absence of a superior proposal.

As the merger is “fair” and “reasonable”, under RG 111, the Merger is considered also to be “in the best interest” of ABP Securityholders.

18 Assessment of Merger – Participating ASF Securityholders

18.1 Approach

We have been requested to prepare an IER advising whether, in our opinion, the Merger is fair and reasonable and in the best interests of Participating ASF Securityholders.

In order to assess whether or not the Merger is fair and reasonable, we have undertaken the following:

- **fair:** we have compared our estimate of the fair market value of ASF Securities (on a control basis) to the fair market value of the Consideration (on a minority interest basis in respect of the ABP Security component); and
- **reasonable:** in the event that the Merger is considered to be “not fair”, this involves an assessment of whether or not there are sufficient reasons for the Participating ASF Securityholders to accept the Merger. This assessment has largely been undertaken by considering whether in our opinion, the advantages of the Merger sufficiently outweigh its disadvantages for the Participating ASF Securityholders.

To assess whether the Merger is in the best interests of Participating ASF Securityholders, we have adopted the test of whether the Merger is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in RG 111, after considering whether there are sufficient reasons for Participating ASF Securityholders to vote in favour of the Merger.

18.2 Fair

Our assessment of whether the proposal is “fair” is set out below:

Table 81 – Participating ASF Securityholders – Fair

	Ref	Note	Low value	High value
Fair market value per ASF Security (control basis) (\$)	A	Table 73	1.24	1.25
Value of Consideration				
Exchange ratio	B		1.86	1.86
No. ABP Securities for each ASF Security (Rounded)	$C=1 \div B$		0.538	0.538
Value of one (1) ABP Security (\$)	D	1	1.90	2.00
Value of ABP Securities for each ASF Security (\$)	$E=C \times D$		1.02	1.08
Add:				
Cash per each ASF Security (\$)	F	2	0.14	0.14
Total value of Consideration for each ASF Security (\$)	$G=F+E$		1.16	1.22
Excess / (Deficiency) (\$)	$H=G-A$		(0.08)	(0.03)
Excess / (Deficiency) (%)	$I=H \div A$		(6.5)%	(2.4)%

Source: LCF analysis

Numbers are rounded

Based on the above analysis, the assessed fair market value of an ASF Security exceeds the assessed fair market value of the Consideration offered, by between 3 and 8 cents per ASF Security. Therefore, we conclude that the Merger is “not fair” to the Participating ASF Securityholders.

18.2.1 Notes to Table 81

The explanatory notes to Table 81 are set out below.

Note 1 Value of one (1) ABP Security

We have considered the value of an ABP Security on a minority basis at Section 15.3. In summary:

- ABP is listed on the ASX, is adequately covered by a number of broking analysts and has sufficient trading liquidity (refer Section 11.12);
- in the circumstances of the Merger, market practice suggests that recent market trading prices of ABP Securities may be used as the basis for determining the fair market value (on a minority interest basis as required by RG 111) of the scrip component of the Consideration offered to Participating ASF Securityholders; and
- having considered the various pricing measures indicated by market trading in ABP Securities, we are of the opinion that an appropriate range of values of an ABP Security (on a minority interest basis) for the purposes of determining the fair market value (on a minority interest basis as required by RG 111) of the scrip component of the Consideration offered to Participating ASF Securityholders is between \$1.90 and \$2.00 (refer Sections 11.12 and 15.3).

Note 2 Cash per each ASF Security

The cash distribution of 14 cents per ASF Security will be paid as follows:

- ASOL (a company) - fully franked dividend of 8.7 cents per share; and
- ASPT (a trust) – capital distribution (unfranked) of 5.3 cents per unit.

The franking credit associated with the fully franked dividend of 8.7 cents is 3.7 cents, making the taxable distribution 12.4 cents, as follows:

Table 82 – Cash consideration

	cents per ASF Security
Cash dividend	8.7
Franking credit	3.7
Total taxable income	12.4

Source: LCF analysis.

18.3 Sensitivity - Fair

We considered the sensitivity of our ASF fairness opinion to movements in the value of an ABP Securities (Table 83).

Table 83 – Sensitivity analysis - Fair

	Sensitivity		Low	Mid	High	Sensitivity	
Value of one (1) ABP/ New Stapled Security	1.80	1.85	1.90	1.95	2.00	2.05	2.10
Assessed fair market value of Consideration for each ASF Security	1.11	1.14	1.16	1.19	1.22	1.24	1.27
Fair market value per ASF Security (control basis) - Low	1.24						
Excess / (Deficiency) (\$)	(0.13)	(0.10)	(0.08)	(0.05)	(0.02)	0.00	0.03
Excess / (Deficiency) (%)	(10.5)%	(8.1)%	(6.5)%	(4.0)%	(1.6)%	0.0%	2.4%
Fair market value per ASF Security (control basis) - High	1.25						
Excess / (Deficiency) (\$)	(0.14)	(0.11)	(0.09)	(0.06)	(0.03)	(0.01)	0.02
Excess / (Deficiency) (%)	(11.2)%	(8.8)%	(7.2)%	(4.8)%	(2.4)%	(0.8)%	1.6%

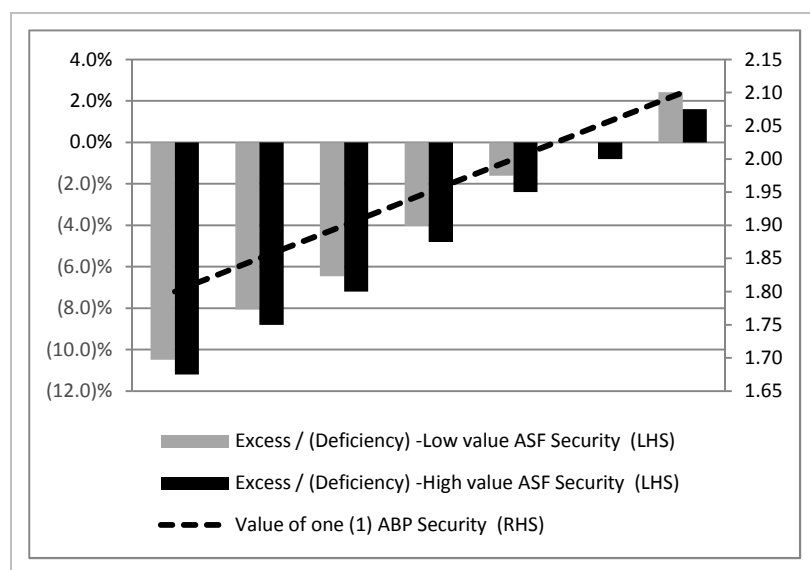
Source: LCF Analysis

Numbers are rounded

As the value of an ABP Security falls below our assessed range of values, the Merger remains not fair to the Participating ASF Securityholders.

The above is set out in the following chart:

Table 84 – Sensitivity analysis chart- Fair



Source: LCF Analysis

18.4 Reasonable

18.4.1 Approach

Under RG111, as the Merger is “not fair”, in order to determine whether the Merger is “reasonable” an assessment needs to be undertaken to consider whether sufficient reasons exist for the Participating ASF Securityholders to approve the Merger. Our assessment of whether the Merger is “reasonable” is set out below.

18.4.2 Background summary

Liquidity for ASF Securityholders is very limited to non-existent

ASFML advises that most ASF Securityholders invested in 2006 under the 2005 Offer Document, which promised a meeting of investors in 2010 to discuss liquidity options. The meeting held in November 2010 agreed to hold another meeting in 2013 to further consider liquidity options available at that time. By that time, many ASF Securityholders would have been invested for approximately 7 years, with little or no opportunity to realise their investment.

ASFML previously has indicated that, depending upon market conditions in 2013, another extension may be necessary.

The limited redemption facility provided by ABP is currently closed as ABP has a relevant interest in nearly 20% of the ASF Securities and cannot increase its holding beyond that limit (refer Section 12.13 above).

The Merger offers the opportunity for Participating ASF Securityholders to obtain some cash and a listed security (i.e. ABP Security) that has reasonable liquidity, so that they can realise their investment, at a time of their choice.

Gearing is close to bank covenant requirements

ASF has relatively high overall gearing as compared with listed A-REIT entities and as at 30 June 2011 just met its LVR and ICR bank facility covenants. The bank facility covenants impose increasingly tighter requirements over time (refer Section 12.9.4 above). An increase in value of the investment properties of approximately \$24m (7.3%) is required by to meet the 50% LVR by 1 January 2013. Recent historical experience has been growth in the investment properties values of between 4% and 5% pa (refer 12.9.1 above; Table 57).

ASF will need to refinance or repay its bank debt facilities by the end of August 2013. It is possible that the facilities will be rolled over or refinanced, but there is no guarantee that will occur and market conditions at the time (that will impact on matters such as interest rates and covenants) are unknown at this time.

The Merger offers the opportunity for Participating ASF Securityholders to realise their investment and avoid any potential difficulties of meeting tightening bank covenant facilities in the future.

Future ASF Distributions likely to be restrained

ASF has paid a steady annual distribution of 8.75 cents per security in each of FY2010 and FY2011 (refer Section 12.10 above). However, this has been achieved by both ASFML and Storage King agreeing to accept reduced management fees (in the amount of approximately 50% of entitlements).

While neither ABP nor ASFML has provided any guidance as to prospective distributions, it is noted that while ABP distributions are projected by various analysts to increase in FY2012 over FY2011, in our opinion, for the reasons discussed above, the need to meet bank debt covenants is likely to restrain ASF distribution growth.

Future growth opportunities are constrained

Given the tight bank covenants unless ASF raises a significant amount of new equity, it is unlikely to be in a position by 2013 to grow by acquisition of new storage facilities. ASFML considers that it would be difficult to raise significant new equity at a reasonable price. We note that a number of listed A-REITs recently have raised equity (refer Table 78). Generally speaking, most have been undertaken a discount to the net assets/net tangible assets of the entity, thus diluting those investors that did not participate in the equity raising.

18.4.3 Alternative strategies

ASFML undertook an analysis of the following alternative scenarios that potentially are available to ASF and its Securityholders if the Merger does not proceed:

- Alternative 1 - Portfolio/trade sale: sell all the assets as one portfolio to a trade sale buyer or a financial investor;
- Alternative 2 - sell all the assets in two separate portfolios to a trade sale buyer or a financial investor;
- Alternative 3 - list ASF on the ASX;
- Alternative 4 - ASF will remain "as is" with a view to winding up the fund and distributing the proceeds in December 2013 (i.e. at or around the maturity date of the existing bank debt facilities);
- Alternative 5 - sell all the assets individually or in small groups;
- Alternative 6 - merge with another fund to assist in achieving adequate size to be an attractive investment for institutional investors and subsequently achieve a liquidity event such as an ASX listing or portfolio sale;
- Alternative 7 - otherwise obtain more equity investment into ASF.

We reviewed the summary of the analysis undertaken, and the financial model developed, by ASFML to indicate the potential outcomes of some of the above alternative scenarios. We revised the assumptions adopted by ASFML in its financial model and incorporated various sensitivity analyses into the model, which resulted in some results from the amended model differing from those calculated by ASFML. However, overall, the broad conclusions that we reached were in accord with those reached by ASFML.

The financial model developed by ASFML analysed Alternatives 1, 2, 3 and 4 above. Alternatives 5, 6 and 7 were analysed on a more qualitative basis by ASFML. These are discussed below.

In summary, the results of the LCF analysis of the Alternatives 1, 2, 3 and 4 are as follows:

Table 85 – Summary results of the analysis of Alternatives

\$	Asset growth over period to sale	Lowest			Highest
Assessed fair market value of Consideration		1.16			1.22
Discount rate applied (nominal; pre-tax; %pa)		13.0%	12.0%	11.0%	0% (Note 4)
Alternative 1: Portfolio Sale		1.05	1.05	1.06	1.12
Alternative 2: Sale of assets in two tranches (Note 1)(Note 2)	Tranche 2 only				
	2%	1.05	1.06	1.07	
	5%	1.08	1.09	1.10	
Alternative 3: Listing of ASF					
Projected trading price (Note 3)		0.93	0.93	0.93	0.98
Alternative 4: Continue as unlisted fund until trade sale and distribution of proceeds in December 2013					
	6%	1.13	1.15	1.18	
	8%	1.16	1.19	1.21	
	10%	1.19	1.22	1.25	

Source: LCF analysis.

Notes:

- 1** Tranche 1 discount rate: 0%; Tranche 2 discounted at respective indicated discount rates.
- 2** Tranche 1 asset growth: 0%.
- 3** Estimated as a discount of 3% to the diluted NTA per security.
- 4** An immediate sale is assumed; therefore, there is no discounting.

In summary, most of the values under the Alternatives analysis undertaken by LCF are less than the assessed fair market value of Consideration under the Merger.

The bold ASF Security values in the above table are those that equal or exceed the assessed fair market value of Consideration under the Merger. These only occur under the assumption of a high rate of asset growth over period to sale (of 10%), which is high compared to historical results.

When comparing the indicated values of the ASF Securities under Alternative 4, it should be remembered that the ABP Securities received as part of the Consideration may also grow in value over the period of the analysis, but this is ignored in the comparison with the Alternative 4 values.

Discussion of Alternatives 1, 2, 3 and 4

A discussion of the analysis of the Alternatives 1, 2, 3 and 4 is set out below.

The range of discount rates adopted to discount future amounts to present values ranged between 11% pa and 13%pa. ASFML adopted 12%pa in its analysis.

To determine the range of discount rates adopted to discount future amounts to present values, we considered the following:

- the discount rates are nominal (i.e. inclusive of inflation), pre-tax discount rates;
- discount rates and internal rates of return adopted or implied by, independent valuation reports in respect of the investment properties as at 30 June 2011;
- the risks relating to the investment properties incorporate elements of business operating risks due to the business activities undertaken at each site, which is distinct from more normal leasing risk involved in owning and leasing a commercial or industrial property and accordingly, some allowance for this risk should be made in the range of discount rates selected; and
- publicly available information on discount rates adopted in regard to similar exercises, in particular, from recent independent expert reports.

Alternative 1: Portfolio/trade sale

The portfolio of 41 self storage assets is amongst the largest self storage portfolios in Australia and New Zealand and is likely to be attractive to a trade sale buyer or a financial investor.

Various fees are payable to ASFML and Storage King upon a successful trade sale, which is a Liquidity Event under the various management agreements with those parties.

The various fees payable to ASFML and Storage King upon a successful Liquidity Event result in a material reduction in value per ASF Security as compared with the net asset value as at 30 June 2011, which does not reflect the fees.

Alternative 2: Sale of assets in two tranches

This is an analysis similar to Alternative 1, with the difference being a sale of the portfolio in two tranches, six months apart. Similarly to Alternative 1, various fees are payable to ASFML and Storage King upon a successful trade sale, which is a Liquidity Event under the various management agreements with those parties.

Again, the various fees payable to ASFML and Storage King upon a successful Liquidity Event result in material reduction in value per ASF Security as compared with the net asset value as at 30 June 2011, which does not reflect the fees.

Alternative 3: Listing on an exchange

With a current net asset value as at 30 June 2011 of less than \$116 million (or \$144 million if the ASF AWCF is converted to equity), ASF would be a relatively small listed property investment vehicle. This would militate against, but not necessarily preclude, any listing on the ASX. However, whilst ever securities in listed A-REITs trade at significant discounts to NTA, listing is unlikely to be attractive, other than to gain liquidity for the ASF Securities.

Further, listing would be likely to require the gearing (interest bearing debt: total assets) to be reduced from the level as at 30 June 2011 of approximately 54% (excluding the ASF AWCF) to somewhere closer to the level of listed A-REITs. Currently, the average of the listed A-REITs is approximately 30%, although there is variation around this average.

A range of gearing for ASF upon listing of between 30%-40% would require the raising of additional equity of between approximately \$81m to \$48m, respectively, (after taking account of the fees payable upon listing and raising additional equity). This would represent between approximately 37% and 26%, respectively, of the revised Pro-forma net assets upon listing (assuming conversion of ASF AWCF) of between approximately \$217m and \$185m, respectively, based on the net assets of ASF as at 30 June 2011.

While listed A-REITS trade at significant discounts to NTA (average of approximately 15%-20%, (depending upon the composition of the sample of entities analysed and noting that there is variation around this average), this equity would likely be raised at a discount to the net asset value, leading to a dilution in value per ASF Security for existing ASF Securityholders.

The ASFML Alternative analysis model adopts an equity injection of \$60m, assuming an issue price per ASF Security of \$1:00.

In addition to reviewing the ASFML analysis of Alternative 3, we cross-checked the reasonableness of the ASFML analysis based upon the following assumptions:

- target net debt gearing, assuming conversion of ASF AWCF: 30% to 40%;
- new equity raised at a discount to adjusted net assets of between 10% and 20% to the adjusted net assets as at 30 June 2011, assuming conversion of ASF AWCF; and
- market trading prices upon listing being at a discount of between 10% and 20% to the revised net assets as at 30 June 2011 per ASF Security (after adjusting for conversion of ASF AWCF, issue of new equity at a discount and listing and capital raising costs).

Under our cross-check analysis, we estimate that upon listing, the ASF securities may trade at the following discount to the adjusted net assets as at 30 June 2011, assuming conversion of ASF AWCF:

Table 86 – Cross-check of reasonableness of the assumed ASF trading price-ASFML Alternative 3 analysis

Potential ASF trading price & discount to adjusted net assets as at 30 June 2011						
\$						
Target net debt gearing (excluding AWCF)	30%	40%	30%	40%	30%	40%
Equity issued at a discount to adjusted net assets of	10%	10%	15%	15%	20%	20%
Adjusted net assets per ASF Security as at 30 June 2011	1.24	1.24	1.24	1.24	1.24	1.24
Potential market trading price per ASF Security	1.06	1.07	0.98	0.99	0.89	0.92
Discount	(0.19)	(0.17)	(0.27)	(0.25)	(0.35)	(0.33)
Discount (%)	(15.0)%	(14.0)%	(21.6)%	(20.1)%	(28.0)%	(26.1)%

Source: ASFML; LCF.

The results of our cross-check analysis as to the likely trading price of an ASF Security upon listing are similar to those of the ASFML analysis.

Alternative 4: Continue as unlisted fund until trade sale and distribution of proceeds in December 2013

The major consideration under this Alternative 4 is the assumed growth in the value of the investment properties over the period. A range of growth rates of 6%, 8% and 10% over the period to 31 December 2013 has been analysed. The recent historical investment properties revaluation gains/ (losses) have been as follows:

Table 87 – ASF historical investment properties revaluation gains/ (losses)

As at		30-Jun	31-Dec	30-Jun	31-Dec	30-Jun
		2011	2010	2010	2009	2009
Fair value adjustments-properties held at balance date	\$'000	16,477	12,693	3,628	3,321	(3,939)
Revaluation gain (%)	6 mth	5.1%	4.0%	1.1%	1.1%	
	12 mth	5.2%	4.0%	1.2%		

Source: ASF Annual Reports FY2011, FY2010 & FY2009

The ASF comprises approximately 20% by value of assets in New Zealand. It is noted that trading conditions in New Zealand have been difficult and reductions in valuations of the New Zealand assets have occurred recently.

The weighted average portfolio capitalisation and occupancy rates have been relatively steady over recent times, with a small increase in each in the 6 months to 30 June 2011:

Table 88 – ASF Weighted average capitalisation and occupancy rates for the portfolio

As at	30-Jun-2011	31-Dec-2010	30-Jun-2010	31-Dec-2009	30-Jun-2009
Weighted average capitalisation rate for the portfolio	9.2%	9.1%	9.1%	9.1%	9.1%
Weighted average occupancy rate for the portfolio	84.8%	84.4%	83.0%	86.0%	84.0%

Source: ASF Annual Reports FY2011, FY2010 & FY2009; ASFML.

Assuming the weighted average portfolio capitalisation rate does not change in the future to 30 June 2013, then any increase in values of investment properties would have to come from increases in net income from the facilities; which would largely have to grow at the same assumed rates of growth in the values of the investment properties (i.e. 6%, 8% and 10%). In this regard it is noted that, broadly speaking, any increase in such income would have to arise from rental rates growth (and not occupancy growth) as the valuations are predicated on either existing mature/sustainable occupancy levels, or where the actual occupancy is current less than an assessed mature/sustainable occupancy level, at the higher mature/sustainable occupancy level. ASF historical growth in gross income has been as follows:

Table 89 – ASF historical growth in income

\$'000	FY 2011	FY 2010	FY 2009	FY 2008
Revenue				
Rental income	36,607	35,498	28,742	23,631
Finance income	105	54	76	137
Merchandising income	3,458	2,974	2,661	2,318
Total	40,170	38,526	31,479	26,086
Annual growth				
Rental income	3.1%	23.5%	21.6%	
Finance income	94.4%	(28.9)%	(44.5)%	
Merchandising income	16.3%	11.8%	14.8%	
Total	4.3%	22.4%	20.7%	
Operating expenses	(7,215)	(6,915)	(5,866)	(4,812)
Annual growth	4.34%	17.9%	21.9%	
Net operating income	32,955	31,611	25,613	21,274
Annual growth	4.25%	23.4%	20.4%	

Source: ASF Annual Reports FY2011, FY2010 & FY2009.

The large increases in rental income in FY2009 largely resulted from inclusion of approximately a half-year of income from the acquisition of the Additional Assets in December 2008 and in FY2010 largely resulted from inclusion of a full year's income from the Additional Assets.

As a guide, the historical 'same store' rental yield growth for 30 Australian stores is set out in Table 90. While the average growth level over the previous two years is approximately 3.8% p.a., the growth recorded in FY2011 of approximately 4.7%.

Table 90 – ‘Same Store’ growth

\$'000	FY 2011	FY 2010	FY 2009
Rent roll	28,177,452	26,857,545	25,065,986
Area sold	1,403,617	1,400,579	1,344,258
Average rate	\$240.90	\$230.11	\$223.76
Change year-on-year	4.7%	2.8%	nc

Source: ASF

nc not calculated.

Reduced management fees

In analysing this Alternative 4, allowance has been made for the increased realisation fees and additional ASF Securities that would be issued upon conversion of the ASF AWCF at 31 December 2013.

The pro-forma balance sheet of the ASF as at 1 October 2008 as set out in the 2008 Offer Document indicated that the pro-forma net assets of ASF as at 1 October 2008 were \$133.2 million (before outside equity interests of \$5.3 million).

On this basis, the compound annual growth of 5% pa from 1 October 2008 to 31 December 2013 to allow recoupment of reduced management fees would require ASF's net asset value per ASF Security (fully diluted) to increase as follows:

Table 91 – ASF's required growth in net asset value per ASF Security to allow recoupment of reduced management fees

\$	30-Sep-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Dec-11	30-Jun-12	31-Dec-12	30-Jun-13	31-Dec-13
Growth hurdle (% pa)	5%								
NAV per security (fully diluted) hurdle	1.18	1.22	1.29	1.35	1.38	1.42	1.45	1.49	1.53
NAV fully diluted	1.18	1.15	1.19	1.29	na	na	na	na	na

Source: LCF analysis.

Based on the above analysis, and our analysis of the Alternatives 1, 2, 3 & 4, in our opinion it is unlikely that the terms for payment of any Storage King and ASFML reduced management fees will be met in the period to 31 December 2013.

In undertaking our analysis, we have not allowed for payment of any amount of reduced management fees. If such fees became payable, the values attributed to the ASF Securities under the Alternatives 1, 2, 3 & 4 would be less than as represented above.

Alternatives 5, 6 and 7

In summary, in regard to Alternatives 5, 6 and 7, ASFML reached the following conclusions:

Alternative 5 - sell all the assets individually or in small groups

This would involve a managed realisation of the fund assets over what is likely to be a reasonably extended period given the number of assets held. This was considered to provide a lower value per ASF Security than either Alternatives 1 or 2, above.

It is considered that selling the portfolio in one line or a few large tranches of facilities is likely to result in the better outcome than under Alternative 5.

Alternative 6 - merge with another fund

Given the nature of the Australian funds management industry, with only three large operators (Kennards, National Storage and Storage King), the options for a merger with an existing operator are limited. The Heitman-National Storage transaction (Southern Cross Storage) involving a reported transaction size of approximately \$187.5m indicates that large amounts of capital for this sector may be available from offshore financial investors.

Two obvious potential domestic candidates were the APN National Storage Property Trust and the IPOF (refer Section 13.2.2). The IPOF has indicated in a presentation to investors in September 2011 that it is nearing end of the life of the fund and is repositioning to commence returning capital and profits to investors, including by selling its entire storage facility portfolio in the Southern Cross Storage transaction. On this basis, in our opinion, it is unlikely that IPOF would be a potential merger partner.

The APN National Storage Property Trust appears to be constrained in raising more funds, as it had to sell the 9 facilities in the Southern Cross Storage transaction in order to reduce its borrowings. APN National Storage Trust had 37 storage facilities, all leased to National Storage on a triple net lease arrangement. After selling the 9 facilities to Southern Cross Storage, APN National Storage Trust retains 28 self storage facilities. However, the announcement in relation to the Southern Cross Storage transaction by APN National Storage Trust indicated that it was facing financing difficulties and it appears it sold the 9 facilities in order to reduce its gearing.

It is noted that the trust indicated that the 9 facilities were sold at a discount of 6.1% to the 30 June 2011 book value (refer Section 13.2.2).

Given that it took Kennards three years to finally settle the acquisition of the Valad storage facility portfolio, it suggests that any potential transaction in that regard would also take some time to complete.

ASFML has held preliminary merger discussions with another market participant, but agreement could not be reached on the indicated level of discounting to net assets that would have to be accepted in order to reach agreement.

It should be noted that a merger with another fund might not result in an immediate cash payment to ASF Securityholders. It may be that a merger would be concluded on an all scrip basis, with the need to subsequently achieve a liquidity event, such as by listing on the ASX. This arrangement would present difficulties in terms of the time taken to negotiate and implement such a merger and a liquidity event.

Further, given that currently A-REITs trade at substantial discounts to net assets, a listing at this time would be likely to see the merged entity securities trading at a material discount to net assets.

Alternative 7 - otherwise obtain more equity investment into ASF

Neither raising additional debt nor equity is likely to result in an immediate cash payment to ASF Securityholders. Any additional capital raised would be most likely used to continue to expand the operations of ASF, with a view to a liquidity event at some time in the future, when the fund had grown its assets to a larger size.

Increasing the level of ASF's borrowings is not an option under current banking facilities. In fact, it is possible that the existing borrowing will have to be reduced to meet the tightening covenants over time (refer Section 12.9.3 above).

ASFML considers that a significant equity raising is unlikely to be achievable at the current time, while the fund remains unlisted. The 2008 Offer Document was the last public raising. It was open at a time when the effects of the GFC were being experienced. Little additional equity was raised under the 2008 Offer Document. Current investment market conditions are not considered conducive to raising a significant amount of new equity in an unlisted, retail-oriented fund, such as ASF.

There have been only a very limited number of capital raisings by listed A-REITs in 2011 and these have been at discounts between 15% and 45% of net asset value per security. There is reportedly limited appetite by retail investors for investment in unlisted, retail-oriented funds such as ASF, although there has been some reported institutional demand for investment in larger unlisted institutional-oriented funds.

18.4.4 Valuation aspects

For the purposes of RG111, an offer is considered to be “reasonable”, if it is “fair”. However, it might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Despite RG 111 requiring the determination of whether the Merger is “fair” to proceed on the basis of assessing the likely value of an ASF Security in a hypothetical control transaction, (i.e. in essence a takeover offer for ASF), in our opinion, the most likely way in which ASF Securityholders will realise their investment in ASF is by way of a disposal of the portfolio by way of trade sale in one line or possibly, in a few major groupings of assets.

In either case, the analysis undertaken of the potentially available Alternatives by LCF, as discussed above, indicates that the immediate sale of the portfolio in two tranches does not exceed the assessed value of the Consideration.

The only Alternative scenario that suggests that per ASF Security values higher than the values assessed under the Merger might be realised is Alternative 4 that requires strong growth (10%) in the values of the investment properties over the period to 31 December 2013. When comparing the indicated values of the ASF Securities under this scenario, it should be remembered that the New Stapled Securities received as part of the Consideration may also grow in value over the period to 31 December 2013, but that this is ignored in the comparison with the Alternative 4 values.

18.4.5 Comparable transactions

Southern Cross Storage transaction

It is noted that the APN National Storage Trust indicated that the 9 facilities were sold to Southern Cross Storage at a discount of 6.1% to the 30 June 2011 book value (refer Section 13.2.2). This compares with the assessed discounts of between 9.4% and 10.1% implied in the fairness assessment (refer Section 18.2 above).

Other A-REIT transactions

Set out in **Appendix 5** is a summary of various statistics in relation to recent control transactions involving Australian listed A-REITs. The statistics indicate that there have been a number of recent control transactions that have succeeded and where the independent expert concluded that the offer was not fair but reasonable, where the value of the consideration offered was less than the value of the securities as assessed by the independent expert and the discount was greater than that assessed by us in regard to the Merger.

Having regard to the above analysis, and the uncertainties surrounding the execution of an immediate sale of the entire portfolio in one tranche, on the one hand and on the other hand, the future growth in the values of the investment properties, in our opinion, having regard to the other considerations regarding the reasonableness of the Merger (discussed below), the Merger can be considered to be “reasonable” in terms of the value of the Consideration offered, for the reasons that, as compared with the Alternatives analysed, the Merger results in a higher range of values with a reasonable certainty of outcome with less execution risk.

Certainly, there remains some risk as to the likely value of a New Stapled Security received as part of the Consideration (as distinct from the certainty of a cash sum). However, the analysis in relation to the ABP Security trading prices (refer Section 11.12.2) suggests that ABP Securities are reasonably liquid and the most recent ABP trading prices on which our analysis of the value of the Consideration is based, are around the lowest levels experienced in 2011 to date.

18.4.6 Distributions

The pro forma income statement of the Merged Group for the year ended 30 June 2011 does not indicate an adverse distribution impact for ABP and ASF Securityholders arising from the Merger itself. ASF securityholders will also benefit from any income earned on the Merger Distribution.

The current year-to-date performance of both ABP and ASF would support distributions in line with the same period last year (i.e. 8.25 cents for ABP and 4.375 cents for ASF) for the half year to 31 December 2011.

On the basis that FY2012 distributions of each of ABP and ASF would not change from FY2011 distributions, the following analysis indicates that Participating ASF Securityholders would be marginally better off in terms of equivalent income per ASF Security:

Table 92 – Change in equivalent distributions per ASF Security, based on FY2011 distributions

FY2011 distributions per security (cents)	Ref	cents	cents	cents
ABP	A	16.5		
ASF	B	8.75		
Effect of Merger per one ASF Security - based on FY2011 distributions (cents)				
Exchange ratio: ASF Securities per ABP Security	C	1.86		
No. ABP Securities for each ASF Security (rounded)	$D=1\div C$	0.538		
ABP equivalent distribution	$E=D\times A$	8.88		
Cash component per ASF Security				
Add: interest income on investment of cash component of Consideration @ % pa		4%	5%	6%
	F	0.56	0.70	0.84
Total income after Merger	$G=E+F$	9.4	9.58	9.72
Difference	$H=G-B$	0.7	0.8	1.0
	$I=H\div B$	7.9%	9.1%	11.4%

Source: LCF analysis.

It is noted that while ABP distributions are projected by various analysts to increase in FY2012 over FY2011 (refer Section 11.7.4), for the reasons discussed above, it is likely that distributions per ASF Security are likely to be constrained.

It is noted that whereas ASF pays distributions quarterly, ABP pays 6 monthly, so under the Merger, there may be a slight disadvantage in terms of timing of receipt of distributions.

18.4.7 Gearing

As at 30 June 2011 the pro-forma Group Gearing of ASF was 51.7%.

If the Merger is implemented, the pro-forma consolidated Group Gearing of the Merged Group as at 30 June 2011 would be 32.7% and covenant gearing will be 37.6%.

Therefore, the Merged Group will be less highly geared than ASF, (each on a pro-forma basis).

18.4.8 Net assets/net tangible assets per security

As at 30 June 2011 the consolidated net assets/net tangible assets per ASF Security (after adjusting only for the assumed conversion of the ASF AWCF) were \$1.295.

If the Merger is implemented, the pro-forma consolidated net assets/net tangible assets, as at 30 June 2011, per New Stapled Security would be \$2.51/\$2.39, respectively (refer Table 36).

On a per equivalent ASF Security basis, the net assets/net tangible assets are calculated as set out in the table below.

Table 93 – Net assets/net tangible assets per security

As at		30-Jun-11	
\$ per security	Ref	Net assets	Net tangible assets
ASF Pro-forma (assuming conversion of ASF AWCF)	A	1.29	1.29
Merged Group Pro-forma	B	2.51	2.39
Net assets/net tangible assets per equivalent ASF Security			
- Exchange ratio	C	1.86	1.86
- No. ABP Securities for each ASF Security (rounded)	D=1÷C	0.538	0.538
- Cash per each ASF Security	E	0.14	0.14
Net assets/net tangible assets per equivalent ASF Security - including cash	F=E+(DxB)	1.49	1.43
Net assets/net tangible assets per equivalent ASF Security - excluding cash	G=F-E	1.35	1.29
Increase/ (decrease) in equivalent NA/NTA per ASF Security (\$) - including cash	H=F-A	0.20	0.14
Increase/ (decrease) in equivalent NA/NTA per ASF Security (%) - including cash	I=H÷A	15.5%	10.9%
Increase/ (decrease) in equivalent NA/NTA per ASF Security (\$) - excluding cash	J=G-A	0.06	nil
Increase/ (decrease) in equivalent NA/NTA per ASF Security (%) - excluding cash	K=J÷A	4.7%	nil%

Source: FY2011 Annual Reports of ABP & ASF; Explanatory Memorandum; LCF analysis.
Numbers are rounded.

The net assets of the New Stapled Securities received under the Merger per equivalent ASF Security currently held by Participating ASF Securityholders will increase by 4.7% and the net tangible assets will not alter. This analysis ignores the fact that under the Merger Participating ASF Securityholders will receive 14 cents cash per ASF Security. If the cash is included in the analysis then the total net assets/net tangible assets received by Participating ASF Securityholders (cash plus New Stapled Security) will increase by between approximately 15.5% and 10.9%, respectively.

18.4.9 Other advantages and disadvantages of accepting the Merger

Advantages of accepting the Merger

The likely advantages to Participating ASF Securityholders of accepting the Merger include:

Franking credit

As part of the Consideration comprises a cash amount of 8.7 cents that will be paid as a dividend, a franking credit of an amount of approximately 3.7 cents per ASF Security will be paid to Participating ASF Securityholders.

We have not factored into our analyses of values any amount in respect of the value attaching to the franking credit. To the extent that Participating ASF Securityholders are able to benefit from the franking credit that will be an additional amount of value that they will receive under the Merger.

Liquidity

The Merger provides Participating ASF Securityholders with the opportunity to realise their investment and obtain a cash component and securities in ABP that are tradeable on the ASX, thus providing liquidity to those investors wishing to have the same.

Avoid risks associated with pursuing alternatives

There is a risk that Participating ASF Securityholders may ultimately realise a value lower than the Consideration under the Merger.

Whilst the Consideration represents a discount to our estimated fair market value of an ASF Security (based upon RG 111 requirements), there is a risk that Participating ASF Securityholders may realise a value lower than both our valuation range and the Consideration.

The main reason for this is that, depending upon the realisation method that ultimately is achieved, significant fees are payable upon various realisation methods. Also, there is the risk of adverse movements in the values of the investment properties. Lower realisation proceeds may arise either because the market values of the properties decline or ASF is forced to sell some of the properties in a sub-optimal manner in order to meet its debt covenant and/ or repayment obligations.

Some realisation methods may require additional equity to be injected and may require an extended timeframe to achieve

Under current market conditions, a listing of ASF on the ASX is likely to require the injection of additional equity, most likely in a manner that would be dilutive to existing ASF Securityholders.

A merger of ASF with another fund may also require the injection of additional equity, (depending upon the identity of the merger partner). Again, under current market conditions it is possible that the injection of additional equity may be in a manner that would be dilutive to existing ASF Securityholders.

Disadvantages of accepting the Merger

The likely disadvantages to Participating ASF Securityholders if the Merger is accepted include:

Participating ASF Securityholders will miss the opportunity to directly participate in any short to medium term appreciation in ASF's property values.

Whilst there is no certainty that the investment property values will appreciate, or the extent of the appreciation, general market sentiment indicates that the current stage in the economic cycle is unlikely to be an optimum time to realise the properties.

Due to the high financial leverage of ASF, any appreciation in the investment property values over time would be likely to translate to a significant improvement in the net asset value per ASF Security.

If Participating ASF Securityholders accept the Merger, they will forgo the opportunity to participate in this leveraged exposure to any short to medium term upside in the values of the properties.

However, conversely, the value of the ABP Securities comprising part of the Consideration may also increase in value. Therefore, if the Merger is implemented, and Participating ASF Securityholders retain the ABP Securities received, they would retain the opportunity for appreciation in the value of their investment.

Inability to participate in any alternative proposal for ASF

Although there is no alternative proposal at present, it is possible that an alternative proposal may emerge. Approval of the Merger would preclude this potential opportunity.

18.4.10 Taxation

The following comments are our expectations of tax for ordinary Australian taxpayers, but cannot be considered tax advice. Tax consequences depend on individual circumstances. Participating ASF Securityholders should seek their own taxation advice.

Merger

The Explanatory Memorandum sets out the general Australian taxation impacts of the Merger on ABP and ASF Securityholders.

In summary there should be no immediate capital gains or income tax implications as a consequence of the Merger, but the cost base of securities will be affected. ABP and ASF Securityholders should seek their own taxation advice in relation to the impact of the Merger on their individual positions.

The 14 cents cash component merger distribution will be paid as follows:

- Abacus Storage Operations Limited - fully franked dividend of 8.7 cents per share; and
- Abacus Storage Property Trust – capital distribution of 5.3 cents per unit.

The payment of 8.7 cents of the 14 cents cash component by way of a fully franked dividend and the balance will be a non-income taxable capital return. Therefore, income taxation on the cash component will be minimised. The capital return will reduce the capital gains tax cost base of the Securityholders' investments in ASF.

Winding up

CGT is likely to apply upon the winding up of ASF as assets will be sold and taxation incurred in any corporate entity holding those assets. Capital will be returned to Securityholders and if this is in excess of the relevant cost base, will be subject to CGT. Any ASF Securityholders that held their ASF Securities for a period in excess of 12 months will likely be eligible for the 50% CGT discount upon distributed proceeds of sale as per the current CGT laws.

Listing

CGT is not likely to apply upon the listing of ASF as ASF Securityholders would not be disposing of ASF Securities (unless they sold their securities subsequently to the listing).

18.4.11 Conclusion on whether the Merger is "reasonable" to Participating ASF Securityholders

Having regard to the above considerations, in our opinion, the Merger is "reasonable" to Participating ASF Securityholders, in the absence of a superior proposal.

18.5 Overall Conclusion

The Merger is considered to be "not fair" but is "reasonable" to the Participating ASF Securityholders.

As the merger is "not fair" but, in the absence of a superior proposal, is "reasonable", under RG 111, the Merger is considered to also be "in the best interest" of the Participating ASF Securityholders.

We have been made aware that since announcing the Merger ASF has received a preliminary expression of interest in the ASF portfolio. The approach is incomplete, subject to the conduct of due diligence and uncertain. However, the ASF board has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the date of the Meetings. If the ASF board receives a sufficiently certain offer, which is more attractive than the Merger proposal, the impact of this and the conclusions in this Report may need to be revisited to take account of this expression of interest.

19 Assessment of Acquisition of Additional Securities by Kirsh Group

19.1 Background

Calculator Australia Pty Limited as trustee of Calculator Australia Trust and KiFin Limited (i.e. the Kirsh Group) currently collectively hold a 39.207% interest in ABP Securities.

Because the Kirsh Group hold more than 20% in ABP, the Corporations Act deems that they also hold a relevant interest in any securities held by ABP. As ABP currently holds 19.955% of ASF, the Kirsh Group is deemed to hold 19.955% in ASF.

The Merger will result in the Kirsh Group acquiring a relevant interest in ASF that is in excess of its current existing relevant interest of 19.955%. This acquisition requires the approval by Non-associated ASF Securityholders under the Corporations Act. If this approval is not obtained, the Merger cannot proceed.

If the Merger does not proceed, the Kirsh Group's interest in ABP will remain at its current level of 39.207% and they will be entitled under the relevant sections of the Corporations Act ("**Creep Provisions**") in the following six months to increase their relevant interest in ABP Securities by a maximum of 3% to 42.207%.

However, if the Merger proceeds, the Kirsh Group's interest in ABP will be diluted to 35.735% and they will be prohibited from increasing their holding in the Merged Group under the Creep Provisions for a period of six month after the Merger has been implemented.

Non-associated ASF Securityholder approval is required to allow the Kirsh Group to acquire a relevant interest in the Merged Group up to 42.207% in the six months immediately following the Merger.

19.2 Opinions requested

We have been asked to give our opinions on whether:

- permitting the Kirsh Group to increase their collective relevant interest in ASF as a result of implementing the Merger; and
- permitting the Kirsh Group to increase their collective relevant interest in the New Stapled Securities up to 42.207% in the six months immediately after the Merger has been implemented,
- is fair and reasonable to, and in the best interest of, the Non-associated ASF Securityholders.

19.3 Regulatory background

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in voting securities of a listed entity or an unlisted company with more than 50 members if the acquisition would increase a person's voting power in the entity:

- from 20% or below to more than 20%;or
- from a starting point that is above 20% and below 90%.

Section 611 Item 7 of the Corporations Act allows a person to acquire a relevant interest in voting securities in an entity which would otherwise be prohibited by section 606 of the Corporations Act. This requires approval by way of a resolution of members where the person acquiring the relevant interest casts no votes in favour of the resolution.

19.4 Conclusion

In our opinion, permitting the Kirsh Group to increase their collective relevant interest in the New Stapled Securities up to 42.207% in the six months immediately after the Merger has been implemented is “not fair” but is “reasonable” to, and “in the best interest” of, the Non-associated ASF Securityholders, in the absence of a superior proposal.

The reasons for our conclusions are set out below.

19.4.1 Increase in the Kirsh Group’s relevant interest in ASF as a result of implementing the Merger

ABP currently holds a 19.955% relevant interest in ASF. Because of the wide scope of the definition of “relevant interest” under the Corporations Act, the Kirsh Group, as holders of a relevant interest in ABP of more than 20%, are deemed to hold a relevant interest in 19.955% of the ASF Securities.

If the Merger is implemented, the ASF Securities currently held by ABP will be distributed pro-rata to ABP Securityholders, including the Kirsh Group. At the same time, further ASF Securities will be issued pro-rata to ABP Securityholders, including the Kirsh Group. This will result in the Kirsh Group increasing their relevant interest in ASF from 19.955% to 35.735%. This increase is prohibited under the Corporations Act unless approved by the Non-associated ASF Securityholders.

We understand that the Kirsh Group has stated that it:

- currently intends that ABP and ASF will be combined into the Merged Group as described in this Explanatory Memorandum but will otherwise continue to operate in their present forms;
- does not currently intend that any major changes be made to the operation or management of ASF;
- does not currently intend to inject further capital in to ASF (other than to the extent they may elect to participate in the DRP of the Merged Group); and
- does not intend to significantly change the financial or dividend policies of the Merged Group, including ASF.

In our opinion, the increase in the Kirsh Group’s relevant interest in ASF as a result of implementing the Merger is not fair to the Non-associated ASF Securityholders as our assessed value of the consideration offered per ASF security is less than our assessed value of the ASF Securities being acquired (determined on a controlling interest basis) (refer Section 18.2 of this Report).

However, in our opinion, in the absence of a superior proposal, the increase in the Kirsh Group’s relevant interest in ASF as a result of implementing the Merger is reasonable to the Non-associated ASF Securityholders for the reasons set out in Section 18.4.9 of this Report.

19.4.2 Increase in Kirsh Group’s relevant interest in 6 months following implementation of the Merger

The Kirsh Group currently holds total relevant interests (and voting power) of 39.207% in ABP. If the Merger is implemented, the Kirsh Group’s overall voting power in the Merged Group will be diluted to 35.735% as a result of the ABP Securities issued to ASF Securityholders (as compared to voting power in ABP of 39.207% immediately before the Merger).

In the six months after completion of the Merger, the Kirsh Group could, under the Creep Provisions, acquire ABP securities so as to hold an aggregate relevant interest in ABP of 42.207%. However, without Non-associated ASF Securityholder approval, the Kirsh Group cannot increase their relevant interest in ASF Securities.

Accordingly, because the mechanics of the Merger (as a stapling of various securities), the Kirsh Group's ability to acquire additional securities in the Merged Group will be restricted in the 6 months following the Merger, because ABP Securities and ASF Securities will be stapled following the Merger. Under the stapling procedure, ABP Securities must be traded with ASF Securities and accordingly, the Kirsh Group will not be able to acquire ABP securities unless it is also permitted to acquire the same number of ASF Securities, to which the ABP Securities will be stapled.

In this case, without approval from Non-associated ASF Securityholders, the Creep Provisions will not allow the Kirsh Group to acquire any further ASF securities (and ABP Securities to which they are stapled) for a period of six months following completion of the Merger (other than through the DRP or other pro rata offers to Securityholders). After those six months, the Kirsh Group could only creep by 3% every six months from the percentage they held in ASF immediately following the Merger (i.e. 35.735%) and not the percentage held in ABP immediately prior to the Merger (i.e. 39.207%).

The Kirsh Group has indicated that it would view the Merger favourably provided it is able to preserve the same rights to maintain and increase its voting power in the Merged Group as it currently has in respect of ABP; that is, an ability to acquire additional securities to take its holding up to 42.207% in the Merged Group in the six months immediately following the Merger.

There is no current intention for the Merged Group to issue additional New Stapled Securities following completion of the Merger (other than through the ongoing operation of the DRP). Consequently, any acquisition by the Kirsh Group would need to be through on or off market purchase and/or participation in the DRP.

With respect to the Kirsh Group increasing their relevant interest in ASF in the six months immediately following the Merger, the price that the Kirsh Group will pay for any additional New Stapled Securities is, at the date of this Report, unknown.

However, in our opinion, if any acquisitions of New Stapled Securities are made on-market in the six months immediately after the Merger it is likely that they will be at a price reflecting a minority interest and therefore, this price will be less than the fair market value of New Stapled Securities on a controlling basis.

If this is the case, in our opinion, this aspect of the Kirsh Proposal is likely to be not fair to the Non-associated ASF Securityholders as the market trading price paid for the New Stapled Securities and the ASF Securities component of the stapled New Stapled Securities is likely to be less than the fair market value of the ASF Securities (on a control basis).

However, in our opinion, it is not prudent or reasonable to speculate as to what price the Kirsh Group may or may not pay for New Stapled Securities, if any, in the six months following the Merger and what proportion of that price may be ascribed (at the time) to the ASF Securities component of the New Stapled Securities. Accordingly, in our opinion, it is not possible to give an opinion on the fairness of any such hypothetical transaction.

However, in our opinion, in the absence of a superior proposal, the increase in the Kirsh Group's relevant interest in ASF in the six months immediately after the Merger is reasonable to the Non-associated ASF Securityholders for the reasons set out in Section 18.4 and the following considerations.

In the absence of the Merger, the Kirsh Group would be entitled to increase their interest in ABP in accordance with the Creep Provisions to 42.207%. Permitting the Kirsh Group to acquire additional New Stapled Securities during the six months immediately after the Merger allows them to establish, in part or in whole, an interest in the Merged Group, which is equivalent to what they would have been entitled to achieve in the absence of the Merger.

Since January 2009 the Kirsh Group have acquired ABP Securities by various means, including underwriting the 1 for 1 rights issue in early 2009, by participating in the distribution reinvestment plan and under the Creep Provisions. Since January 2009, the Kirsh Group have acquired approximately 14% of ABP Securities pursuant to the DRP and under the Creep Provisions. To the extent that these ABP Securities were acquired via on-market purchases, this provided additional liquidity and depth to the market for ABP Securities that may otherwise not have been present. This is balanced against the possibility that as the Kirsh Group's interest in the Merged Group increases over time, the free-float of New Stapled Securities will reduce which may possibly impact the depth of the market for New Stapled Securities.

Permitting the Kirsh Group to acquire additional Stapled Securities during the six months immediately after implementing the Merger may provide additional liquidity and depth to the market for Stapled Securities that would otherwise not be present.

20 Qualifications, Independence and Disclaimer

20.1 Qualifications

LCF is the licensed corporate advisory arm of Lawler Partners. LCF provides advice in relation to all aspects of valuations and its personnel have extensive experience in the valuation of corporate entities.

Mr Peter Cornell B.Com, LLB, is a Director of LCF. Mr Cornell has been actively involved in the preparation of this report.

Mr Cornell has over 30 years experience in law, business valuation, corporate planning and corporate advisory activities. He has had extensive experience in the areas of preparation and review of independent expert's reports, litigation support activities, business feasibility studies, financial investigations, business valuations and due diligence reviews.

Mr Vince Fayad B.Bus, CA, is a Director of LCF. Mr Fayad has been actively involved in the review of this report.

Mr Fayad has over 30 years experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, advising on independence expert reports, preparation of information memoranda and other corporate investigations.

Based on their experience, Messrs Cornell and Fayad are considered to have the appropriate experience and professional qualifications to provide the advice offered.

20.2 Independence

LCF is not aware of any matter or circumstance that would preclude it from preparing this report on the grounds of independence, either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

LCF does not have any shareholding in, or other relationship with ABP that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

The signatories of this report have previously been engaged by entities associated with the Abacus Property Group to prepare various reports, including independent expert reports and independent accounting reports. The last engagement concluded in December 2008 and involved the signatories of this report providing an independent accounting report for inclusion in the 2008 Offer Document in relation to the Acquisition of the Additional Assets by ASF and the associated PDS issued at around that time.

LCF considers itself to be independent in terms of RG 112 *Independence of experts*, issued by ASIC.

LCF will receive a fee based on the time spent in the preparation of this Report in the amount of approximately \$180,000, (plus GST and disbursements). LCF will not receive any fee contingent upon the outcome of the Merger.

Four (4) drafts of this Report were provided to ABP for review of factual accuracy. Certain changes were made to this Report as a result of the circulation of the drafts of this Report. However, our approach, valuation method and overall conclusions were not affected by the circulation of the draft reports.

Appendix 1 Sources of Information

In preparing this report we have had access to and relied upon the following principal sources of information:

- ABP and ASF Annual Reports for the years ended 30 June 2009, 2010 and 2011;
- ABP and ASF monthly management accounts for the months of July, August & September 2011;
- ABP and ASF budgets for the year ending 30 June 2012;
- Various ABP and ASF non-public management information, including financial information and analysis, property valuations (both external and internal) and discussions with various ABP and ASF management involved in the funds management, property ventures and investment property activities regarding the nature and prospects of their respective businesses and financial position;
- details of ABP and ASF Securityholders as at 22 August 2011;
- Draft Notices of General Meeting and Explanatory Statement;
- various ABP ASX announcements;
- ABP website;
- publicly available economic research publications;
- publicly available information on comparable companies published by Capital IQ and Thompson Reuters; and
- other publicly available information.

Appendix 2 Glossary of Terms

Set out below is a glossary of terms used in this Report.

Table 94: Glossary

Term	Definition
ABP	Abacus Property Group comprising Abacus Trust (AT), Abacus Group Holdings Limited (AGHL), Abacus Group Projects Limited (AGPL) and Abacus Income Trust (AIT)
ABP Directors	Directors of ABP
ABP Securityholders	Stapled security holders of ABP
ADIF II	Abacus Diversified Investment Fund II
AFML	Abacus Funds Management Limited
AHF	Abacus Hospitality Fund
AMSF	Abacus Miller Street Fund
A-REIT	Australian-real estate investment vehicle
ASF	Abacus Storage Fund comprising Abacus Storage Property Trust (ASPT) and Abacus Storage Operations Limited (ASOL)
ASFML	Abacus Storage Funds Management Limited
ASIC	Australian Securities and Investments Commission
ASPT	Abacus Storage Property Trust
ASX	Australian Stock Exchange
AWCF	Abacus Working Capital Facility
AWLF	Abacus Wodonga Land Fund
CFME	Capitalisation of Future Maintainable Earnings
Completion	Completion of the Merger
Conditions Precedent	Conditions of the Merger
Consideration	Consideration payable to Participating ASF Securityholders under the Merger
Corporations Act	Corporations Act 2001 (Cth)
COT	Continuity of ownership test
Covenant Gearing	Total liabilities less cash divided by total tangible assets less cash
CY2011	Calendar year 2011
DCF	Discounted cash flow
Documents	Notices of Meeting and Explanatory Memorandum
DRP	Distribution Reinvestment Plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
Explanatory Memorandum	Explanatory Memorandum to be issued in relation to the Merger
FME	Future maintainable earnings
FOS	Financial Ombudsman Service Limited
FSG	Financial Services Guide
Funds	Certain funds managed by ABP funds management business (namely, AHF, ASF, AWLF, AMSF, ADIF II)
FY2011	Financial year ended 30 June 2011
FY2012 Outlook	ABP management budget for the year ended 30 June 2012 and approved by the Directors
GDP	Gross domestic product
GFC	Global Financial Crisis
Group Gearing	In regard to ABP, ASF and the Merged Group, net debt divided by total assets minus cash, excluding any impact of AASB 10.
H1FY20XX	First half year (January to June) of FY20XX
H2FY20XX	Second half year (July to December) of FY20XX
IER	Independent Expert's Report
Index	ASX200 index

Term	Definition
Industry	A-REIT industry
IPO	Initial public offering
Kirsh	The Kirsh group of companies
Kirsh Group	Calculator Australia Pty Limited as trustee of Calculator Australia Trust and KiFin Limited, currently collectively hold a 39.207% relevant interest in ABP Securities.
Kirsh Proposal	Proposal relating to the Kirsh Group increasing their relevant interest in ASF (i) on implementing the Merger and (ii) in the six months immediately after implementing the Merger
LCF	Lawler Corporate Finance Pty Limited (ABN 65 097 893 957)
Listing Rules	Australian Stock Exchange Listing Rules
Merged Group	The group that will result from Stapling the securities of AT, AGHL, AGPL, AIT, ASPT and ASOL to one another
Merger	Stapling of ABP and ASF securities as set out in the Explanatory Memorandum
Merger Ratio	The ratio of New Stapled Securities to be offered for each ASF Security held by Participating ASF Securityholders
NA	Net assets
New Stapled Securities	The stapled securities of the Merged Group
Non-associated ASF Securityholders	ASF Securityholders other than the Kirsh Group and its associates
Notice of Meeting	Notice of meeting to be issued in relation to the Merger
NPV	Net present value
NTA	Net tangible assets
Participating ASF Securityholders	ASF Securityholders other than ABP
p.a.	per annum
PDS	Product Disclosure Document
Prospective Financial Information	Prospective financial information for the financial year ending 30 June 2012 in relation to ABP and ASF
Q1 FY2012	July, August and September 2011
RBA	Reserve Bank of Australia
Report	Independent Expert Report prepared by LCF
RG 111	ASIC Regulatory Guide 111 <i>Content of expert reports</i>
RG 112	ASIC Regulatory Guide 112 <i>Independence of experts</i>
SBT	Same business test
Securityholder	Securityholder of ABP or ASF
SWOT	Strengths, weaknesses, opportunities and threats
VWAP	Volume weighted average price
\$	Australian dollar

Source: LCF

Appendix 3 Valuation Methods

In conducting our assessment of the fair market value, the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow ("**DCF**") method is based on the premise that the value of any asset (including a business) is represented by the present value of its future cash flows. Application of the method requires two essential elements:

- the expected future cash flows of the asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows that is used to discount the expected future cash flows to their net present value ("**NPV**").

DCF is appropriate where:

- the cash flows are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy;
- cash flows are expected to fluctuate significantly from year to year;
- the asset has a finite life;
- the asset is in a 'start up' or early stage of development;
- the asset has irregular capital expenditure requirements;
- the asset involves infrastructure or similar projects with major capital expenditure requirements; or
- the asset is currently making losses but is expected to recover.

Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable earnings that can be derived by the asset and excludes any one off profits or losses, or income or expenses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable assets.

This method is suitable for the valuation of assets with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Realisable Value of Assets

Asset based valuations involve the determination of the fair market value based on the net realisable value of the assets used in the business or used by the entity being valued.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for the asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business or entity including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business or entity is wound up in an orderly manner.

This is not a valuation on the basis of a forced sale, where the assets might be sold at values materially different from their fair market value;

- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding entity, where realisation of the assets in the short term is not expected. Adjustments may need to be made to the accounting carrying values of assets and liabilities to reflect their going concern value.

The net realisable value of a trading entity's assets will generally provide the lowest possible value for the entity. The difference between the value of the entity's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where an entity is making sustained losses, profits at a level less than the required rate of return, where it is close to liquidation, where it is a holding entity, or where all its assets are liquid. It is also relevant to businesses that are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Security Market Trading History

The application of the price that an entity's securities trade on the ASX is an appropriate basis for valuation where:

- the securities trade in an efficient market place where 'willing' buyers and sellers readily trade the securities;
- the market for the securities is active and liquid; and
- a minority interest value is desired.

Constant Growth Dividend Discount Model

The dividend discount model works best for entities:

- with stable growth rates;
- that pay out dividends/ distributions that approximate free cash flow to equity;
- with stable leverage; and
- where there are significant or unusual limitations to the rights of security holders;
- usually, where a minority interest value is desired.

Special Value

Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset that are not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

Appendix 4 Comparable Company Descriptions

Set out below are summary descriptions of the operations of the selected listed broadly comparable companies (Source: Capital IQ; LCF analysis):

APN Property Group Limited

APN Property Group Limited engages in the provision of real estate investment management services primarily in Australia, Europe, and Asia. It invests in, develops, and manages real estate and real estate securities for institutions, superannuation funds, and high net worth and individual investors. The company manages 18 investment funds, including domestic and international property securities, direct property, private, and listed funds on behalf of direct clients. It has a strategic partnership with ARA Asset Management Limited, a real estate fund management company. The company was founded in 1996 and is headquartered in Melbourne, Australia.

Aspen Group

Aspen Group operates as a property investment and management company in Australia. The company primarily focuses on acquiring commercial properties, including office, retail, and industrial properties. It also offers managed funds, which provide investment opportunities across various property sectors, including tourist parks, residential land subdivisions, CBD office developments, private hospital developments, and retirement and accommodation villages. The company is based in Perth, Australia.

Australand Property Group

Australand Property Group operates as a diversified property group in Australia. It is involved in the development of residential land, housing, and apartments and investment and development of income producing commercial and industrial properties. Also, it provides property management services. As of December 31, 2010, the company's investment property portfolio comprised 73 properties with a total lettable area of 1.1 million square metres. It operates primarily in Sydney, Melbourne, South East Queensland, Adelaide, and Perth.

Centuria Capital Limited (previously, Over Fifty Group Limited)

Centuria Capital Limited provides various investment and other financial products and services. The company manages unlisted property investment funds. It also offers tax effective bonds, education plans, and home loans, as well as over 50, car, home, and travel insurance products and solutions under agency arrangements. The company was formerly known as Over Fifty Group Limited and changed its name to Centuria Capital Limited on March 14, 2011. Centuria Capital Limited is headquartered in Melbourne, Australia.

Challenger Diversified Property Group

Challenger Diversified Property Group invests in office, retail, and industrial properties in Australia and France. It also engages in property development activities and invests in a car park operating business. The company is based in Sydney, Australia.

Charter Hall Office REIT (previously, Macquarie Office Trust)

Charter Hall Office REIT is a real estate investment trust that primarily invests in high grade office buildings predominantly located in major business districts across Australia and the United States. Charter Hall Office REIT recently exchanged contracts to sell its entire United States portfolio. Charter Hall Office Management Limited serves as the responsible entity of Charter Hall Office REIT, which is based in Sydney, Australia. On 5 December 2011, Charter Hall Office Management Limited announced a conditional agreement under which a bidding consortium would acquire all units in Charter Hall Office REIT, other than those held by Charter Hall Group.

Charter Hall Group

Charter Hall Group, through its subsidiaries, operates as a property investment, funds management, and development management company in Australia and New Zealand. It operates in two segments, Property Investment, and Funds Management and Corporate. The Property Investment segment has interests in investment properties and unlisted funds. It has a diversified portfolio of properties in various sectors, including commercial, industrial, retail, bulky goods retail, and infill residential sectors. The Funds Management and Corporate segment develops and manages investment and opportunity funds behalf of institutional and retail investors. It also provides the financial structuring and strategic property advice, including acquisitions and divestment strategies, transaction structuring, investment product structuring, portfolio optimization, and financing. In addition, this segment offers a range of property management services, including market analysis, risk management, occupancy maximization, environmental and engineering management, and information management. The group was founded in 1991 and is headquartered in Sydney, Australia.

Charter Hall Retail REIT (previously, Macquarie CountryWide Trust)

Charter Hall Retail REIT is a real estate investment trust launched and managed by Charter Hall Group. Charter Hall Retail REIT invests in supermarkets and shopping centres in Australia, New Zealand and the United States. The portfolio consists of well located grocery anchored neighbourhood and sub-regional shopping centres together with select household retail centres. Charter Hall Retail REIT was founded in 1995 and is based in Sydney, Australia.

Commonwealth Property Office Fund

Commonwealth Property Office Fund is a REIT managed by Colonial First State Property Limited. It invests in prime quality office buildings located in central business district and major suburban markets of Australia. Commonwealth Property Office Fund benchmarks the performance of its portfolio against the UBS Commercial 200 Accumulation Index and the S&P/ASX 200 Property Trust Accumulation Index. Commonwealth Property Office Fund was formed in April, 1999 and is domiciled in Australia.

Cromwell Property Group

Cromwell Property Group is an internally managed A-REIT and a property fund manager. It engages in property investment, development, and management operations, as well as in the promotion and management of property related managed investment schemes in Australia. The group also provides funds management and capital raising services for investment in properties. It also holds a corporate real estate license. The group was founded in 1970 and is based in Brisbane, Australia.

Dexus Property Group (previously, DB RREEF Trust)

DEXUS Property Group owns, manages, and develops office, industrial, and retail properties in Australia, New Zealand, the United States, France, Germany, and Canada. It also develops and manages office, industrial, and retail properties on behalf of third party investors. The group provides office space in various locations for corporate tenants, and local, state, and federal governments and specializes in premium business parks, industrial estates, and logistics and distribution facilities. It also manages and develops retail assets. DEXUS Property Group is headquartered in Sydney, Australia.

FKP Property Group

FKP Property Group is involved in property development, construction and investment, the development and management of retirement villages and the management of resorts and associated infrastructure. It primarily engages in development of commercial, industrial, retail, and residential property, construction, land subdivision and retirement village ownership and management. FKP Property Group is based in Brisbane, Australia.

GPT Group

GPT Group operates as a diversified real estate investment vehicle in Australia, Europe and the United States. It invests in retail, commercial, hotel, industrial, and office park properties. The group also engages in the development of retail, commercial, industrial and office park properties, residential property development, property trust management, property management and hotel management. The group was founded in 1971 and is based in Sydney, Australia.

Growthpoint Properties Australia (previously, Orchard Industrial Property Fund)

Growthpoint Properties Australia is a stapled entity managed by Growthpoint Properties Australia Limited. The group invests in leased investment property within the real estate markets of Australia. It primarily invests in income producing industrial property, traditional assets in the retail, office, and industrial sectors and in a range of non-traditional property assets, such as childcare centres, medical centres, and hospitals. Growthpoint Properties Australia was formed in 2006 and is domiciled in Australia.

Investa Office Fund (previously, ING Office Fund)

Investa Office Fund is a leading A-REIT, owning and managing investment grade office buildings in core CBD markets throughout Australia and select offshore markets in US and Europe. It invests in office properties, primarily leased on a long term basis, to investment grade and blue chip tenants. Investa Listed Funds Management Limited is the responsible entity. Investa Office Fund is based in Sydney, Australia.

Mirvac Group

Mirvac Group engages in real estate investment and development, funds management, and hotel management primarily in Australia. It is involved in the investment and asset management of a range of properties, including commercial offices, retail centres, industrial properties, operates approximately 40 hotels and resorts in Australia, New Zealand, and the Pacific, and car parks. The company also engages in the construction and property development of residential, commercial, industrial, and retail development projects. In addition, Mirvac Group manages listed and unlisted funds on behalf institutional and retail investors. The group was founded in 1972 and is headquartered in Sydney, Australia.

Peet Limited

Peet Limited engages in the development of broadacre residential land via syndicated, owned or joint venture projects in Australia, involving acquisition, development, management, marketing, and sale of real estate properties. It is involved in the development of residential land estates and apartments, retirement villages; and commercial properties. The company also offers project management services. Peet Limited was founded in 1895 and is based in Perth, Western Australia.

Stockland Corporation Limited

Stockland Corporation Limited engages in development and marketing of land, construction of commercial buildings, construction and marketing of townhouses, hotel management, management of trusts, investment in commercial properties, and property leasing and management in Australia, the United Kingdom, and New Zealand. It invests in retail, office, industrial, and office park properties, as well as residential properties and retirement living facilities. Stockland Corporation was founded in 1952 and is headquartered in Sydney, Australia.

Trafalgar Corporate Group Limited

Trafalgar Corporate Group Limited operates as a property investment and funds management internally managed stapled entity. Its investment portfolio primarily comprises office and industrial properties which are leased to investment grade corporates or Commonwealth government agencies on long term basis. The Group currently owns a portfolio of three commercial properties located in Sydney and Canberra and one industrial building in Goulburn. The Group is also involved in three development projects involving industrial land sub-division, office/warehouse units and high density residential development lots. The projects are located in Brisbane, Sydney and Adelaide. In addition, it manages various external funds on behalf of retail, institutional and private equity investors. The group was founded in 1997 and is based in Sydney, Australia.

Trinity Limited

Trinity Limited engages in the investment in and management of commercial, retail, industrial, and residential properties in Australia. It is also involved in funds management, including property and project management activities. In addition, Trinity Limited engages in property development activities. The company is headquartered in Brisbane, Australia.

Valad Property Group

Valad Property Group engages in the ownership of property, as well as in the investment and management of property funds in Australia. It invests, leases, or sells property and development assets. The group also manages a range of funds, such as stable passive income property funds and high-yield specialized development funds. Valad Property Group, through Valad Property Trust, invests in premium office properties and bulky goods retail properties, as well as holds portfolio of self-storage assets. Valad Property Group is based in Sydney, Australia. As of August 26, 2011, Valad Property Group was taken over and now operates as a subsidiary of two affiliates of Blackstone Real Estate Advisors L.P.

Villa World Group

Villa World is a residential property developer, specialising in the development of affordable 'house and land' packages and integrated housing in Queensland, New South Wales and Victoria. Villa World is based in Brisbane, Queensland.

Westfield Retail Trust

Westfield Retail Trust, a real estate investment trust, focuses on investing in retail properties. The property investment portfolio consists of 54 shopping centres located in Australia and New Zealand. Westfield Retail Trust is based in Sydney, Australia. Westfield Retail Trust operates independently of Westfield Group as of December 13, 2010.

Appendix 5 Selected Recent Listed A-REITs Control Transactions

Table 95: Analysis of recent control transactions regarding listed A-REITs

Target	Successful	Announcement Date	Premium to last traded price	Offer: Premium to one month VWAP	Offer: Premium to three month VWAP	Offer: Premium to six month VWAP	Offer: Premium (Discount) to last reported net tangible assets (NTA)	Offer: Premium (Discount) to last reported net assets (NA)	Offer: Premium /(Discount) to IER valuation per security		Directors' recommendation	Independent expert report conclusion
			%	%	%	%	%	%	Low %	High %	%	
Valad Property Group	Yes	Apr-11	56%	52%	52%		(22.0)%	(35.0)%	(5.8)%	(25.6)%	Accept	Merger is not fair, but reasonable and is in the best interests of securityholders
EDT Retail Trust	Yes	May-11	27%	27%	27%	25%	(14.8)%		(14.6)%	(14.7)%		Revised offer not fair but is reasonable and in the absence of a superior offer is in the best interests of unitholders
Oaks Hotels & Resorts		May-11	100%	85.7%	25%			9.3% (35.8)% (Note 3)	(23.5)%	(34.2)%	Accept; Bidder had relevant interest in more than 50% of the shares.	Neither fair nor reasonable
ING Industrial Fund	Yes	Oct-10	17%	11.8%	14.5%	23.4%	(1.5)%	(1.5)%	0.7%	(2.2)%	Accept	Fair and reasonable and in the best interests of unitholders
Aevum	Yes	Sep-10		5%			(11.0)%					

Target	Successful	Announcement Date	Premium to last traded price	Offer: Premium to one month VWAP	Offer: Premium to three month VWAP	Offer: Premium to six month VWAP	Offer: Premium (Discount) to last reported net tangible assets (NTA)	Offer: Premium (Discount) to last reported net assets (NA)	Offer: Premium /(Discount) to IER valuation per security		Directors' recommendation	Independent expert report conclusion
			%	%	%	%	%	%	Low %	High %	%	
Macarthur Cook Industrial Fund	Yes	Jul-10	42%	47%			(32.0)%		(30.2)%	(31.3)%	Accept	Not fair but reasonable
Westpac Office Trust	Yes	Apr-10	12%	14%			2.4%				Accept	Offer fair and reasonable
Challenger Kenedix Japan Trust	Yes	Dec-09		46%					(39)%	(36)%		Offer not fair but is reasonable
Mirvac Real Estate Investment Trust	Yes	Oct-09		66%					(31)%	(33)%		Offer not fair but is reasonable
Tishman Speyer Office Fund Restated IER (for lower DTL discount & revised AUD:USD exchange rate)	No	Jul-09	25.0%	7.1%	36.4%	100.0%	(47.4)%	(47.1)%	(54.5)%	(62.5)%	Reject	Neither fair nor reasonable

Source: Various independent expert reports and explanatory memoranda issued in respect of or by relevant companies; LCF analysis.

Note 1: Analysis based on revised higher offer, where relevant.

Note 2: In all the offers, other than in relation to the Mirvac Real Estate Investment Trust, the consideration was cash. In the case of the Mirvac Real Estate Investment Trust offer, the consideration was a mix of cash and scrip.

Financial Services Guide

9 January 2012

What is a Financial Services Guide?

This Financial Services Guide ("**FSG**") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided in the form of an independent expert report by Lawler Corporate Finance Pty Limited (ABN 65 097 893 957) ("**Lawler Corporate Finance**"). The use of "we", "us" or "our" is a reference to Lawler Corporate Finance as the holder of Australian Financial Services Licence ("**AFSL**") No. 295872.

The contents of this FSG include:

- who we are and how we can be contacted;
- what services we are authorised to provide under our AFSL;
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide;
- details of any potential conflicts of interest; and
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by the Directors of Abacus Property Group and Abacus Storage Fund to prepare an Independent Expert's Report providing our opinion as to whether a proposal to merge the Abacus Property Group and Abacus Storage Fund (collectively, "**Funds**") are in the best interest of the security holders of each of the funds ("**Report**").

The proposals are set out in the Explanatory Statement accompanying the Notices of Extraordinary General Meeting of each of the Funds to be dated on or around the date of our Report. You are not the party or parties who engaged us to prepare this Report. We are not acting for any person other than the party or parties who engaged us. We are required by law to give you an FSG because our Report is being provided to you. You may contact us using the details located below.

Lawler Corporate Finance provides services primarily in the area of corporate finance and is partly owned by partners of the Australian partnership of Lawler Partners. Lawler Partners and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the partnership of Lawler Partners.

The financial product advice in our Report is provided by Lawler Corporate Finance and not by the partnership of Lawler Partners.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the partnership of Lawler Partners (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- Provide financial product advice for the following classes of financial products:
 - deposit and payment products limited to:
 - basic deposit products;
 - deposit products other than basic deposit products;
 - debentures, stocks or bonds issued or proposed to be issued by a government;

- interests in managed investment schemes excluding investor directed portfolio services;
and
- securities

Information about the general financial product advice we provide

The financial product advice provided in our Report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

We charge fees for providing Reports. Fees are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Neither Lawler Corporate Finance, nor its directors and officers, receive any commissions or other benefits arising directly from providing Reports to you. The remuneration paid to our directors and staff reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

The estimated fee for this Report is \$180,000 (exclusive of GST and out-of-pocket expenses).

Responsibility

The liability of Lawler Corporate Finance is limited to the contents of this FSG and our Report referred to in this FSG.

What should you do if you have a complaint?

If you have any concerns regarding our Report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

AFSL Compliance Manager

Lawler Corporate Finance Pty Limited

GPO Box 5446

SYDNEY NSW 2001

Telephone: +61 2 9008 1404 Fax: +61 2 8346 6099

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service ("**FOS**"). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry.

Complaints may be submitted to FOS at:

Financial Ombudsman Service

GPO Box 3

Melbourne VIC 3001

Telephone: (03) 9613 7366 Fax: (03) 9613 6399

Internet: <http://www.fos.org.au>

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia ("**ICAA**"). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants

GPO Box 9985

Sydney NSW 2001

Telephone: +61 2 9290 1344 Fax: +61 2 9262 1512

Specific contact details for lodging a complaint with the ICAA can be obtained from their website at <http://www.charteredaccountants.com.au/The-Institute/Member-complaints-and-discipline/How-to-make-a-complaint.aspx>

The Australian Securities and Investments Commission ("**ASIC**") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630

Email: info@asic.gov.au

Internet: <http://www.asic.gov.au/asic/asic.nsf>

ATTACHMENT 4 - FEES AND OTHER COSTS

1.1. Consumer Advisory Warning

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on Your long term returns. For example, total annual fees and costs of 2% of Your fund balance rather than 1% could reduce Your final return by up to 20% over a 30 year period (for example, reduce it from A\$100,000 to A\$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or Your financial adviser.

TO FIND OUT MORE

If You would like to find out more, or see the impact of the fees based on Your own circumstances, the **Australian Securities and Investments Commission (ASIC)** website (www.fido.asic.gov.au) has a managed investment fee calculator to help You check out different fee options.

1.2. Effect of Stapling on fees and other costs

The Consumer Advisory Warning in Section 1.1 above and the following Sections 1.3 to 1.7.10 are disclosures which are required by the Corporations Act to be included in this document. The required disclosures do not contemplate a stapled structure and assume that all fees and other costs required to be disclosed will be paid to third parties and may reduce Your final returns. If the Merger proceeds, the fees and costs that are shown below (other than those payable to Storage King and referred to in Sections 1.5.4 and 1.5.5) will be payable to companies that are ultimately owned by You and others as holders of stapled securities and will have little, if any, effect on the value of Your stapled securities or the returns You derive from them.

1.3. Fees and other costs

This section shows fees and other costs that You may be charged. These fees and costs may be deducted from Your money, from the returns on Your investment or from the assets of ASF and ABP as a whole.

Unless otherwise stated, fees and costs disclosed in this section are inclusive of GST and any input tax credits (to the extent that either are applicable).

You should read all the information about fees and costs because it is important to understand their impact on Your investment.

1.4. ASF fees and other costs

TYPE OF FEE OR COST	AMOUNT	HOW AND WHEN PAID
Fees when Your money moves in or out of ASF		
Establishment Fee The fee to open Your investment.	Nil	Not applicable.
Contribution Fee The fee on each amount contributed to Your investment – either by You or Your employer.	Nil	Not applicable.
Withdrawal Fee The fee on each amount You take out of Your investment.	Nil ¹	Not applicable.
Termination Fee The fee to close Your investment.	Nil	Not applicable.
Management costs The fees and costs for managing Your investment		
Management Fee	0.85% per annum of the total asset value of ASPT and 0.85% per annum of the total asset value of ASOL.	Payable monthly in arrears within 21 days of the end of the month from the assets of ASF.
Capital Raising Fee	0.77% of the amount of equity raised in any capital raising by ASF.	Payable 3 business days after the capital raising.
Acquisition and Finance Fee	1.25% of the purchase price of every additional real property asset acquired by ASF subject to a minimum fee of \$75,000.	Payable within 3 business days of the earlier of the acquisition or the completion of any related capital raising.
Sales Management Fee	0.75% of the net sale price of any direct real property sold (after deduction of all selling expenses).	Payable on disposal of the relevant property.
Performance Fee a performance fee on the disposal of assets prior to listing or on listing	<p>On sale of any asset prior to listing:</p> <ul style="list-style-type: none"> 10% of the difference between the net sale price of the asset (after deduction of all selling expenses) and the purchase price of the asset (including acquisition costs). <p>On the listing of ASF:</p> <ul style="list-style-type: none"> 10% of the difference between the aggregate value of the assets and the sum of the purchase price (including acquisition costs) of each of the assets. 	<p>Payable on sale of the relevant asset or listing.</p> <p>ASFML may elect to receive the performance fee in cash, stapled securities, in assets or by a combination of any of these methods.</p>
Ongoing expenses	Expenses reasonably and properly incurred by ASFML in performing its obligations in relation to ASF.	Payable or reimbursable from the assets of ASF.
Service fees		
Investment Switching Fee The fee for changing investment options.	Nil	Not applicable.

¹While there is no withdrawal fee, there is an administrative/handling fee of 5% charged for applications processed in accordance with the Liquidity Facility. Further, applications processed under the Liquidity Facility will also incur stamp duty. However, the Liquidity Facility is currently at capacity.

1.5. Additional explanation of ASF fees and costs

1.5.1. Management fee

ASFML as the responsible entity of ASPT is entitled to receive a management fee of 0.85% of the total gross assets of ASPT and 0.85% of the total gross assets of ASOL. However these fees have been reduced as set out in Section 7.2.6.

After 1 July 2010 ASFML will only increase its management fee up to a maximum 0.85% of gross assets if the distributions to ASF securityholders in that financial year are at least equal to the distribution in the prior financial year plus the greater of CPI or 3%.

Management fees that have been reduced may also be recouped in a later year based on reaching performance benchmarks and on a liquidity event, both of which are subject to certain conditions. The performance benchmark is if in any financial year ASF's net asset value increased by more than 5% compounded from 1 October 2008. ASFML may utilize up to 50% of the increase in net asset value growth above the 5% threshold to payout ASFML and Storage King reduced management fees. If these fees are recoverable it has been agreed that ASFML may recoup its fees ahead of Storage King.

Since ASF was launched to 30 June 2011 ASFML has reduced management fees by approximately \$5.3m. Based on the performance of ASF from 1 October 2008 to 30 June 2011 ASFML is not currently entitled to recoup any of these reduced fees.

1.5.2. Capital raising fee

ASFML will be entitled to a capital raising fee of 0.77% of the amount of equity raised in any capital raising of ASF.

Dollar example of equity raising fee

On a \$37m capital raising, of this amount the capital raising fee would be a maximum of \$284,900 including GST, payable to ASFML within 3 business days after the completion of the capital raising.

No capital raising fee is payable as a result of the Merger.

1.5.3. Acquisition fee

ASFML is entitled to an acquisition fee equal to 1.25% of the purchase price of each property asset acquired by ASF. This fee is payable at the earlier of 3 business days after acquisition of the asset or the completion of any related capital raising. The minimum acquisition fee is \$75,000 per acquisition, therefore if the purchase price was \$6,000,000 or less the acquisition and finance fee would be \$75,000.

DOLLAR EXAMPLE OF ACQUISITION FEE	\$
Purchase price ≤ \$6,000,000	75,000
Purchase price = \$8,000,000	100,000
Purchase price = \$10,000,000	125,000

No acquisition fee is payable as a result of the Merger.

1.5.4. Sales management fee

Each of ASFML and Storage King is entitled to a sales management fee equal to 0.75% of the net sale price, payable on disposal of a property. This fee is not payable if after deducting the sales management fee from the sale price (less any fees and costs associated with the sale), the amount is less than the purchase price of the property (including capital expenditure).

DOLLAR EXAMPLE OF SALES MANAGEMENT FEE	\$
Net sale price	6,500,000
Storage King sales management fee @ 0.75%*	48,750
ASFML sales management fee @ 0.75%*	48,750
Final net proceeds	6,402,500

*The sales management fee would be reduced if after payment of the sales management fees the net sale proceeds is less than the adjusted purchase price.

The Merger does not result in these fees being payable by ASF.

1.5.5. Performance fee

A performance fee may be payable to ASFML in the event of the sale of any asset of ASF. The performance fee will be equal to 10% of the difference between the net sale price (after deduction of all selling expenses) of the asset and its total acquisition cost (being the purchase price plus stamp duty and all other acquisition expenses).

A performance fee will also be payable on listing of ASF if the aggregate value of the assets of ASF exceeds the sum of the total acquisition costs of those assets. This performance fee will be equal to 10% of the difference between the aggregate value of the assets and the aggregate of their total acquisition costs. The value of the assets at the time of listing will be determined by an independent qualified valuer as at the date the disclosure document is issued.

Storage King is entitled to 50% of any performance fee if ASFML charges this fee.

The performance fee may be paid in cash, stapled securities, assets or any combination of these.

DOLLAR EXAMPLE OF PERFORMANCE FEE	\$M
Sale of a facility	10.0
Property acquisition price and acquisition costs	(8.0)
Selling costs	(0.2)
Sales management fees	(0.1)
Net profit	1.70
ASFML performance fee (@ 10%)	0.17

Note: this is not a forecast of ASF's future performance but an example for illustrative purposes only.

For the purposes of the Merger ASFML will not charge this performance fee.

1.5.6. Ongoing expenses

ASFML is entitled to be reimbursed for all expenses reasonably and properly incurred in managing ASF. Payment or reimbursement of these expenses will be from the assets of ASF. Examples of these expenses include asset and property management costs, accounting, auditing, legal fees, valuation, administration and reporting, share registry costs, holding investor meetings, custodian and compliance costs.

1.5.7. Indirect Cost Ratio and Management Expense Ratio

The Indirect Cost Ratio (ICR) for ASF is the ratio of ASF's management costs that are not deducted directly from an investor or investor's account to ASF's total average net assets. The Management Expense Ratio (MER) is the ratio of management costs to gross assets of ASF.

The ICR and MER for ASF for the year ended 30 June 2011:

ICR 1.27%
MER 0.53%

1.5.8. Changes to fees and costs

ASFML may waive, reduce or postpone the receipt of any fee (or any part of a fee) or charge a lesser fee than ASFML is entitled to receive under the constitution. ASFML may recover any fees waived, reduced or postponed in a later year, including if ASFML is terminated.

ASFML will provide 30 days written notice of any increase in fees up to the maximum permitted. ASFML may not increase fees beyond the maximum amount permitted in ASPT's constitution without seeking the approval of securityholders at a meeting.

1.5.9. Termination of ASFML

ASFML can retire or be removed and replaced with another appropriately licensed company if ASF securityholders pass an extraordinary resolution (if the scheme is not listed) to that effect at a properly convened meeting of ASF securityholders. An "extraordinary resolution", in relation to a registered scheme, means a resolution of proper notice has been given and that has been passed by at least 50% of the total votes that may be cast by members entitled to vote on the resolution (including members who are not present in person or by proxy).

If such a resolution is successful, ASFML will be entitled to recoup any unpaid fees due to it.

1.5.10. Example of ASF annual fees and costs

This table gives an example of how the fees and costs in ASF can affect Your investment over a one year period. You should use this table to compare this product with other investment products.

Example		BALANCE OF \$50,000 WITH A CONTRIBUTION OF \$5,000 DURING THE YEAR
Contribution fees	Nil	Nil
PLUS Management costs	1.27% ICR (see Section 1.5.7)	AND, for every \$50,000 You have in ASF You will be indirectly charged \$635 each year.
EQUALS Cost of the fund		If You had an investment of \$50,000 at the beginning of the year and You put in an additional \$5,000 during that year, You would be indirectly charged fees of \$635 to \$699 depending on the date the additional \$5,000 was invested.

1.6. ABP fees and other costs

Unless otherwise expressly stated, the following fees represent the fees and costs of both AIT and AT.

TYPE OF FEE OR COST	AMOUNT	HOW AND WHEN PAID
Fees when Your money moves in or out of ABP		
Establishment Fee The fee to open Your investment.	Nil	Not applicable.
Contribution Fee The fee on each amount contributed to Your investment – either by You or Your employer.	Nil	Not applicable.
Withdrawal Fee The fee on each amount You take out of Your investment.	Nil	Not applicable.
Termination Fee The fee to close Your investment.	Nil	Not applicable.
Management costs The fees and costs for managing Your investment		
Management Fee	1% of the gross assets of the trust.	Payable monthly in arrears on the last day of each month.
Performance Fee	10% of the difference of the net sale price (after deduction of all selling expenses) and the purchase price (including acquisition costs).	Payable on completion of the sale.
Real Property Acquisition Fee for AT	Up to 1% of the purchase price of any real property acquired.	Payable on completion of the purchase.
Real Property Acquisition Fee for AIT	The greater of \$150,000 or up to 2% of the purchase price of any real property.	Payable on completion of the purchase.
Capital Raising Fee	0.75 cents for each stapled security issued.	Payable on completion of the raising.
Ongoing Expenses	All expenses incurred in performing obligations in relation to ABP.	Payable or reimbursable from the assets of ABP.
Service fees		
Investment Switching Fee The fee for changing investment options.	Nil	Not applicable.

1.7. Additional explanation of fees and other costs

1.7.1. Management fee

AFML is entitled to receive a management fee of 1% of the total gross assets of ABP on a consolidated basis including the gross assets of all sub-trusts.

1.7.2. Capital raising fee

AFML will be entitled to a capital raising fee of 0.75 cents for each stapled security issued, whether by public offer, private placement, rights issue or any other method or combination used for that capital raising.

Dollar example of equity raising fee

On a capital raising in which 1,000,000 stapled securities are issued, the capital raising fee would be a maximum of \$7,500 payable to AFML.

1.7.3. Real property acquisition fee for AT

AFML is entitled to a real property acquisition fee of up to 1% of the purchase price of each property asset acquired by AT or a sub-trust of AT after 1 July 2001.

DOLLAR EXAMPLE OF REAL PROPERTY ACQUISITION FEE	\$
Purchase price ≤ \$6,000,000	60,000
Purchase price = \$8,000,000	80,000
Purchase price = \$10,000,000	100,000

1.7.4. Real property acquisition fee for AIT

A real property acquisition fee is payable to AFML when real property is acquired by AIT or a sub-trust of AIT. The real property acquisition fee is the greater of \$150,000 or up to 2% of the purchase price of the property.

If the purchase price is less than or equal to \$7,500,000 then the real property acquisition fee will be equal to \$150,000. If the purchase price is greater than \$7,500,000 then the real property acquisition fee will be equal to up to 2% of the purchase price.

DOLLAR EXAMPLE OF REAL PROPERTY ACQUISITION FEE	\$
Purchase price ≤ \$7,500,000	150,000
Purchase price = \$8,000,000	160,000
Purchase price = \$10,000,000	200,000

1.7.5. Performance fee

A performance fee may be payable to AFML in event of the sale of any asset of AT and AIT. The performance fee will be equal to 10% of the difference between the net sale proceeds (after deduction of all selling expenses) of the asset and its purchase price (including all acquisition costs) capped at 4.5% of the net sales proceeds (after deduction of all selling expenses).

The performance fee is not payable to AFML unless the net sale proceeds (after deduction of all selling expenses) exceeds 110% of the purchase price (including all acquisition costs). Payment of the performance fee is not to reduce the return to securityholders of the net sale proceeds (after deducting all selling expenses) below 110% of the purchase price (including all acquisition costs).

DOLLAR EXAMPLE OF PERFORMANCE FEE	\$M
Sale of a facility	10.0
Property acquisition price and acquisition costs	(8.0)
Selling costs	(0.2)
Net profit	1.80
AFML performance fee (@ 10%)	0.18

Note: this is not a forecast of AT's or AIT's future performance but an example for illustrative purposes only.

1.7.6. Ongoing expenses

AFML is entitled to be reimbursed for all expenses incurred in managing ABP. Payment or reimbursement of these expenses will be from the assets of ABP Entities. Examples of these expenses include accounting, auditing, legal fees, valuation, administration and reporting, share registry costs, holding investor meetings, custodian and compliance costs.

1.7.7. Indirect Cost Ratio and Management Expense Ratio

The Indirect Cost Ratio (ICR) for ABP is the ratio of ABP's management costs that are not deducted directly from an investor or investor's account to ABP's total average net assets. The Management Expense Ratio (MER) is the ratio of management costs to gross assets of ABP.

The ICR and MER for ABP for the year ended 30 June 2011:

ICR	1.97%
MER	1.38%

1.7.8. Changes to fees and costs

AFML may waive or postpone the receipt of any fee (or any part of a fee) or charge a lesser fee than AFML is entitled to receive under the constitutions.

AFML may not increase fees beyond the maximum amount permitted in the ABP constitutions without seeking the approval of securityholders at a meeting.

1.7.9. Termination of AFML

AFML can retire or be removed and replaced with another appropriately licensed company if the requirements of the Corporations Act and the Listing Rules (as applicable) are complied with. AFML may agree with an incoming responsible entity to receive a retirement payment.

1.7.10. Example of annual fees and costs

This table gives an example of how the fees and costs in the fund can affect Your investment over a one year period. You should use this table to compare this product with other investment products.

Example		BALANCE OF \$50,000 WITH A CONTRIBUTION OF \$5,000 DURING THE YEAR
Contribution fees	Nil	Nil
PLUS Management costs	1.97% ICR (see Section 1.7.7)	AND, for every \$50,000 You have in ABP You will be indirectly charged \$985 each year.
EQUALS Cost of the fund		If You had an investment of \$50,000 at the beginning of the year and You put in an additional \$5,000 during that year, You would be indirectly charged fees of \$985 to \$1,083 depending on the date the additional \$5,000 was invested.

