**Abacus Trust**
Responsible Entity
Abacus Funds Management Limited
ABN 66 007 415 590

**Abacus Group Holdings Limited**
ABN 31 080 604 619

14 September 2005

Company Announcements Office
Australian Stock Exchange

**ABACUS PROPERTY GROUP (ABP)**
**2004 Financial Accounts**

Attached are the full annual financial accounts for the Abacus Property Group for the year ended 30 June 2005.

Yours faithfully,

**Sean O'Donoghue**
Company Secretary

Abacus
PROPERTY GROUP

# ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED 30 June 2005**

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The Annual Financial Report of the Abacus Property Group consists of the combined financial reports of Abacus Group Holdings Limited (ABN 31 080 604 619) and its controlled entities and the Abacus Trust (ABN 27 921 263 285) and its controlled entities.

This document contains the following four separate sections:

- Abacus Property Group combined financial statements
- Abacus Group Holdings Limited and its controlled entities' consolidated financial statements
- Abacus Trust and its controlled entities' consolidated financial statements
- Corporate Governance Report and Additional Information

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It is recommended that this Annual Financial Report should be read in conjunction with the Annual Financial Reports of Abacus Group Holdings Limited and Abacus Trust as at 30 June 2005. It is also recommended that the report be considered together with any public pronouncements made by the Abacus Property Group in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

# ANNUAL FINANCIAL REPORT
**30 June 2005**

## Directory

**Responsible Entity:**

Abacus Funds Management Limited
ABN 66 007 415 590
Level 34, Australia Square
264-278 George Street
SYDNEY NSW 2000
Tel: (02) 9253 8600
Fax: (02) 9253 8616
Website: www.abacusproperty.com.au

**Directors of Responsible Entity:**

John Thame, Chairman
Frank Wolf, Deputy Chairman (Executive)
David Bastian, Managing Director
Dennis Bluth
Phillip Green
Malcolm Irving

**Directors of Abacus Group Holdings Limited:**

John Thame, Chairman
Frank Wolf, Deputy Chairman (Executive)
David Bastian, Managing Director
Dennis Bluth
Phillip Green
Malcolm Irving
Len Lloyd (Executive)

**Company Secretary:**

Sean O'Donoghue

**Auditor:**

Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

**Custodian:**

Perpetual Trustee Company Limited
Level 8
9 Castlereagh Street
SYDNEY NSW 2000

**Compliance Auditor:**

Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

**Share Registry:**

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
SYDNEY NSW 2000
Tel: (02) 1800 635 323 Toll free
Fax: (02) 8234 5050

# ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED 30 June 2005**

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# DIRECTORS' REPORT

**30 June 2005**

The Directors present their report together with the combined financial report of the Abacus Property Group (APG or the "Group") for the year ended 30 June 2005 and the auditor's report thereon.

The combined financial report of the Abacus Property Group comprises the aggregated financial reports of the Abacus Trust and its controlled entities and Abacus Group Holdings Limited and its controlled entities.

## DIRECTORS

The Directors of Abacus Group Holdings Limited and Abacus Funds Management Limited, the Responsible Entity of the Abacus Trust, in office during the financial year and until the date of this report are set out below:

| | |
|---|---|
| John Thame | Chairman (Non-executive) |
| Frank Wolf | Deputy Chairman (Executive) |
| David Bastian | Managing Director |
| Dennis Bluth | Non-executive Director |
| Phillip Green | Non-executive Director |
| Malcolm Irving | Non-executive Director |
| Len Lloyd | Executive Director (Abacus Group Holdings Limited) |

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year ended 30 June 2005 were:

- investment in commercial, retail and industrial properties;
- property related funds management and property syndication;
- property and project management;
- mortgage lending; and
- participation in other property related activities and joint ventures.

## CORPORATE STRUCTURE

Abacus Property Group (APG) is comprised of the Abacus Trust (AT) and Abacus Group Holdings Limited (AGHL). Units in AT and shares in AGHL have been stapled together so that neither can be dealt with without the other. An APG security consists of one unit in AT and one share in AGHL. A transfer, issue or reorganisation of a unit in AT is accompanied by a transfer, issue or reorganisation of a share in AGHL.

Abacus Group Holdings Limited is a company incorporated and domiciled in Australia. Abacus Trust is an Australian registered managed investment scheme. Abacus Funds Management Limited, the Responsible Entity of Abacus Trust, is incorporated and domiciled in Australia and is a wholly owned subsidiary of Abacus Group Holdings Limited.

The registered office and principal place of business of Abacus Group Holdings Limited and of Abacus Funds Management Limited is located at Level 34 Australia Square, 264-278 George Street, Sydney NSW 2000.

# DIRECTORS' REPORT

**30 June 2005**

## OPERATING PROFIT

The Group earned a net profit attributable to stapled security holders of $39.1 million for the year ended 30 June 2005 (2004: $34.7 million).

## EARNINGS PER STAPLED SECURITY

| | Year ended 30 June 2005 cents | Year ended 30 June 2004 cents |
|---|---|---|
| Basic and diluted earnings per stapled security | 12.18 | 12.84 |

Earnings per stapled security were affected by the time lag between raising additional capital during the year and the effective investment of that capital.

## DISTRIBUTIONS

The Group paid cash distributions to security holders of $35.1 million (11.50 cents per unit) during the year ended 30 June 2005 (2004: $29.3 million; 10.85 cents per unit). In addition, a distribution of $9.9 million (2.90 cents per unit) was declared and provided for in respect of the quarter ended 30 June 2005.

The Abacus Trust funded all distributions to security holders for the year ended 30 June 2005.

The full year distribution of 11.40 cents per stapled security reflects a 3.4% increase after the deduction of the extraordinary distribution of 0.2 cents due to the need to distribute all the taxable income of the Trust for the year ended 30 June 2004.

Distributions were paid in respect of the year ended 30 June 2005 to stapled security-holders as follows:

| | Cents | $'000 |
|---|---|---|
| Interim distribution paid 12 November 2004 | 2.80 | 8,328 |
| Interim distribution paid 12 February 2005 | 2.80 | 8,727 |
| Interim distribution paid 12 May 2005 | 2.90 | 9,942 |
| Final distribution paid 10 August 2005 | 2.90 | 9,942 |
| **Total** | **11.40** | **36,939** |

## REVIEW OF OPERATIONS

### Group Overview

The Group operates wholly within Australia (except for an investment of approximately $3 million in a joint venture in the United Kingdom) and holds an investment portfolio of commercial, retail and industrial properties, operates funds and property management businesses, mortgage loan investments and participates in development projects and other property-based investments.

# DIRECTORS' REPORT

**30 June 2005**

**Operating Results for the Period**

A summary of combined revenue and profits is as follows:

| | Year ended 30 June 2005 | |
|---|---|---|
| | **Revenue $'000** | **Profit $'000** |
| *Business segments* | | |
| Property rental and sales | 36,541 | 22,904 |
| Funds and property management | 9,125 | 7,425 |
| Other property-based investments | 25,269 | 17,897 |
| Combined entity adjustments | 1,165 | (8,442) |
| Combined entity revenue and operating profit | **72,100** | **39,784** |

During the financial year under review, APG achieved strong growth in all its key business activities.

**Investment property portfolio**

- The Group acquired four additional properties for an aggregate $129.4 million, including:
  - Liverpool Plaza Shopping Centre in Sydney's west;
  - A 50% interest in Santos House, a commercial tower in Adelaide;
  - A commercial building at 50 Miller Street, North Sydney; and
  - An industrial property in Brisbane.

  These acquisitions bring the value of the total investment property portfolio to $352.0 million at 30 June 2005;
- The revaluation of 9 existing properties in the portfolio resulted in a net increase of $11.7 million in the carrying value of investment properties;
- Net property income for the full year ended 30 June 2005 was approximately $23 million and this is projected to be approximately $28 million for the year ended June 2006.

**Funds Management**

- In funds management, as Responsible Entity, the Group:
  - sold one property and acquired or contracted to acquire 9 additional properties in the Abacus Diversified Income Fund (ADIF). Total assets of ADIF increased $55.5 million to $222.4 million for the year ended 30 June 2005;
  - established three new managed investment schemes with total assets of $39.5 million at 30 June 2005;

  Total assets under management (combining assets owned by the Abacus Property Group and assets managed by the Group on behalf of external investors) increased $275 million (or 40%) to approximately $950 million at 30 June 2005 compared to approximately $675 million at 30 June 2004.

  On 31 May 2005, AGHL executed an agreement to acquire Storage King Funds Management Limited, the Responsible Entity of the Abacus Storage Property Trust, for the purpose of establishing the Abacus Storage Fund (a stapled security fund comprising a managed investment scheme and an operating company). The acquisition of the initial portfolio of storage facility assets, totalling approximately $100 million, is scheduled to be completed during August 2005 and the Group has budgeted to advance approximately $40 million to assist in settlements pending the issue of a PDS/Prospectus.

# DIRECTORS' REPORT

**30 June 2005**

**REVIEW OF OPERATIONS continued**

**Operating Results for the Period continued**

### Mortgage lending

- The mortgage portfolio comprises the Abacus Mortgage Fund, loans to build our fund management business, mortgages to Abacus associated developments and joint ventures and other mortgage investments.
- The Abacus Mortgage Fund increased the size of its mortgage book (including accrued interest) by $11.8 million to $56.5 million at 30 June 2005 compared to $44.7 million at 30 June 2004. The Fund has an average loan balance of approximately $2 million and average term of 18-24 months. Loans are provided to both property developers and investors.
- A subsidiary of Abacus Group Holdings Limited, had loans totalling $96.4 million outstanding at 30 June 2005. Of the outstanding balance at 30 June 2005, $73.6 million had been advanced to the new schemes noted above ahead of raising external debt finance and equity capital from retail investors, to existing schemes where Abacus is either the responsible entity or has joint venture interests, or for other mortgage purposes.

### Projects & Joint ventures

- Abacus has a number of joint venture investments with experienced property investors or developers in New South Wales, Queensland and Victoria. These joint venture activities enable Abacus to participate in a range of property related opportunities with industry leaders who have local knowledge and a depth of management experience. During the year to 30 June 2005, joint venture investment activities contributed $1.6 million to the Group's profit.

### Review of Financial condition

During the year ended 30 June 2005, the contributed equity of the Group increased $85.5 million to $351.8 million. Capital raisings were made through institutional placements in August 2004 (27.00 million shares at $1.18) and December 2004 (31.16 million shares at $1.26) and a Security Purchase Plan for existing shareholders was completed in October 2004 (14.25 million shares at $1.18). This additional capital was directed towards acquisition of property assets for the Abacus Trust and for growth of the funds management business (particularly the Abacus Diversified Income Fund and a number of new managed investment schemes).

Total equity increased $101.1 million to $403.8 million at 30 June 2005 compared to $302.7 million at 30 June 2004. Net tangible assets per security increased 9.0% to $1.09 at 30 June 2005 compared to $1.00 at 30 June 2004.

At 30 June 2005, existing loan facilities totalled approximately $188.8 million, of which $172.8 million was drawn. The Trust manages interest rate exposure on debt facilities through the use of interest rate swap contracts. At 30 June 2005, approximately $138.9 million or 80.0% of interest commitments on drawn facilities were fixed at an average interest rate of 7.0% and an average term to maturity of 5.8 years.

As noted above, at 30 June 2005, $73.6 million had been advanced to schemes where Abacus is either responsible entity, trustee or has an equity interest via a joint venture. The Group's net debt gearing ratio (calculated as total interest bearing liabilities less cash assets divided by total assets) was 28.4% at 30 June 2005 (18.5% at 30 June 2004). The Group's gearing ratio will decrease as capital is raised for our new managed investment products and as a result of capital raised on 10 August 2005 from an institutional placement of $55 million.

# DIRECTORS' REPORT

**30 June 2005**

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Group occurred during the financial year:

- Total assets increased 42.6% or $177.4 million to $593.5 million at 30 June 2005 compared to $416.1 million at 30 June 2004;
- Retained earnings increased $2.2 million to $12.2 million at 30 June 2005 compared to $10.0 million at 30 June 2004;
- Total equity increased 33.4% or $101.1 million to $403.8 million at 30 June 2005 compared to $302.7 million at 30 June 2004, reflecting additional capital raised, growth in retained earnings and net positive revaluations during the year;
- The Abacus Diversified Income Fund increased its total gross assets under management by approximately $55 million to $222 million at 30 June 2005 compared to $167 million at 30 June 2004.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

On 10 August 2005, the Group completed a capital raising of $55.0 million and issued approximately 42.6 million securities at $1.29 per security. Of the total $55.0 million capital raised, approximately $3.7 million has been allocated to AGHL and an amount of approximately $49.6 million, net of capital raising fees of $1.65 million, allocated to Abacus Trust.

During August 2005, the Abacus Group Holdings Limited (AGHL) completed the acquisition of the initial portfolio of storage facility assets for the Abacus Storage Fund, advancing approximately $40 million, through an associated entity, ahead of raising capital from external retail investors.

During August 2005, Abacus Trust exchanged contracts to acquire two additional properties (adjacent to the Group's Liverpool Plaza Shopping Centre) for an aggregate purchase price of $7.3 million.

Other than as disclosed already in this report and to the knowledge of directors, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may effect, the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors have excluded from this report any other information on the likely developments in the operations of the Group and the expected results of those operations in future financial years which are not of a material nature and would not in the Directors' view be likely to result in unreasonable prejudice to the operation of the Group.

## REMUNERATION REPORT

### Remuneration & Nomination Committee

The Remuneration & Nomination Committee is responsible for making recommendations to the Board on remuneration policies and practices applicable to Board members and senior executives of the Group.

The Board's remuneration policy is to ensure that remuneration packages properly reflect each individual's duties, responsibilities and performance. In addition, the Board seeks to ensure that remuneration offered by the Group is competitive in attracting, retaining and motivating high quality people.

# DIRECTORS' REPORT

**30 June 2005**

**REMUNERATION REPORT continued**

**Role of the Remuneration & Nomination Committee**

The primary responsibilities of the Remuneration & Nomination Committee include:

- determining and reviewing remuneration policies to apply to members of the Board and to the Executives of the Group;
- determining the specific remuneration packages for Executive Directors and key members of the senior management team (including base pay, incentive payments and other benefits);
- reviewing contractual rights of termination of Executive Directors and, where applicable, members of the senior executive team;
- reviewing managements recommendations of the total proposed incentive payment awards to be provided;
- reviewing and approving the appointment of senior executives to the Group.

**Role of the Remuneration & Nomination Committee**

The Remuneration & Nomination Committee is comprised of:

Malcolm Irving (Chairman)
John Thame
Dennis Bluth

**Remuneration of Non-Executive Directors**

The remuneration policy for Non-Executive Directors seeks to appropriately remunerate them for their time, commitment and responsibilities.

Non-executive directors are paid a directors fee and do not receive any retirement benefits (other than superannuation which is inclusive in the directors fee) or performance related compensation. Where a Non-Executive director serves on the Group's Credit Committee, they receive remuneration for this service in addition to a directors fee. The aggregate pool available for payment of directors fees to Non-Executive Directors of the Group is an amount not to exceed $165,000 (inclusive of superannuation guarantee contributions). This amount was applicable at the time of listing in November 2002.

Given the current approved total Non Executive Directors fee pool has been in force since November 2002, the Directors intend to propose a change to the directors fee pool to incorporate a structure of a base fee together with fees for service on various Board committees. It is intended that security holders will be asked to approve an increase in directors' fees at the next Annual General Meeting of the Group.

The remuneration of Non Executive Directors for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| J Thame | 66,320 | - | 6,560 | 72,880 |
| D Bluth | 30,120 | - | 3,295 | 33,415 |
| M Irving | 29,150 | - | - | 29,150 |
| P Green | 26,528 | - | 2,622 | 29,150 |
| | **152,118** | **-** | **12,477** | **164,595** |
| D Bluth (1) | 3,200 | - | - | 3,200 |
| **Total** | **155,318** | **-** | **12,477** | **167,795** |

(1) relates to fees paid in respect of service to the Credit Committee

# DIRECTORS' REPORT

**30 June 2005**

**REMUNERATION REPORT continued**

**Remuneration of Non Executive Directors continued**

The remuneration of Non Executive Directors for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| J Thame | 65,793 | - | 7,087 | 72,880 |
| D Bluth | 30,527 | - | 3,289 | 33,816 |
| M Irving | 29,152 | - | - | 29,152 |
| P Green | 26,317 | - | 2,835 | 29,152 |
| **Total** | **151,789** | **-** | **13,211** | **165,000** |

**Remuneration of Executive Directors and Senior Executives**

**Executive Employment Contracts**

On 1 October 2002, the Group entered into a thirty three month executive employment contract with an Executive Director, F.M Wolf, and the Managing Director, D.J. Bastian. The agreement stipulates the starting base salary, allows for annual review and inflation adjustment and provides for short term incentive payments in addition to the executive's base salary at the discretion of the Board. The agreements expired on 30 June 2005 and new agreements are in the process of being negotiated.

There are no other executive service agreements.

**Executive pay**

The Board's policy on Executive pay is to ensure remuneration is reasonable, competitive, motivating and appropriate for the results delivered. The Remuneration and Nomination Committee takes external advice in its deliberations.

The current remuneration structure has two components, the combination of which comprises the Executive's total remuneration:

- base pay & benefits (fixed); and
- short term incentive (variable "at risk")

There is currently no long term incentive structure or program in place. The total remuneration package seeks to provide an appropriate mix of base salary with short term incentive.

**(a) Base Pay**

Executives are offered a base pay that comprises the fixed component of their total remuneration. Subject to meeting minimum Superannuation Guarantee obligations, Executives are able to nominate the mix between cash and superannuation contributions.

Base salary is set by reference to the Executives position, experience and performance. The Group aims to ensure base salaries are competitive in the market. Base salaries are reviewed annually having regard to individual and Group performance and external market conditions.

The base pay of Executive Directors and senior executives are reviewed and approved by the Remuneration & Nominations Committee.

# DIRECTORS' REPORT

**30 June 2005**

**REMUNERATION REPORT continued**
**Executive pay continued**

**(b) Short Term Incentives**

At the discretion of the Board, executives and senior managers may receive short term incentive payments based on reference to a variety of measures, both financial and non-financial. These measures primarily include Group profitability targets, returns to security holders and certain key performance indicators such as assets under management.

The Board considers that performance linked objectives that have an operational and financial impact focus are best suited to the outcomes desired by security holders. Non-financial measures are also taken into account.

The actual level of short term incentive payments awarded to each Executive at the end of each year is determined by reference to achievement of the targets and the extent to which executives were able to contribute to such achievement.

In awarding short term incentives for the 2006 financial year, the directors intend to make the performance indicators more specific to individuals and their contribution to the Group's results.

**Remuneration of Executive Directors**

The remuneration of executive Directors for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| F Wolf | 551,250 | 400,000 | - | 951,250 |
| D Bastian | 484,540 | 250,000 | 11,585 | 746,125 |
| L Lloyd | 169,500 | 60,000 | 51,000 | 280,500 |
| **Total** | **1,205,290** | **710,000** | **62,585** | **1,977,875** |

The remuneration of Executive Directors for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| F Wolf | 525,000 | 350,000 | - | 875,000 |
| D Bastian | 461,498 | 250,000 | 11,002 | 722,500 |
| L Lloyd | 150,000 | 20,000 | 60,000 | 230,000 |
| **Total** | **1,136,498** | **620,000** | **71,002** | **1,827,500** |

**Remuneration of Specified Executives**

The remuneration of Specified Executives for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Superan-nuation | 2005 Total |
|---|---|---|---|---|
| J L'Estrange | 196,914 | 100,000 | 28,086 | 325,000 |
| S O'Donoghue (i) | 188,904 | 65,000 | 12,058 | 265,962 |
| K Kitchen | 194,414 | 56,000 | 11,586 | 262,000 |
| P Strain | 173,414 | 60,000 | 11,586 | 245,000 |
| C Bibby | 158,414 | 30,000 | 11,586 | 200,000 |
| **TOTAL** | **912,060** | **311,000** | **74,902** | **1,297,962** |

(i) Commenced employment in September 2004.

# DIRECTORS' REPORT

**30 June 2005**

**REMUNERATION REPORT continued**

**Remuneration of Specified Executives continued**

The remuneration of Specified Executives for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Superan-nuation | 2004 Total |
|---|---|---|---|---|
| J L'Estrange | 194,293 | 50,000 | 11,002 | 255,295 |
| R Hill | 193,748 | - | 11,002 | 204,750 |
| K Kitchen | 146,498 | 25,000 | 11,002 | 182,500 |
| P Strain | 153,435 | 20,000 | 11,002 | 184,437 |
| C Bibby | 146,498 | 15,000 | 11,002 | 172,500 |
| **TOTAL** | **834,472** | **110,000** | **55,010** | **999,482** |

**INFORMATION ON DIRECTORS AND OFFICERS**

The Directors and Company Secretary of Abacus Group Holdings Limited and Abacus Funds Management Limited, the Responsible Entity of the Abacus Trust, in office during the financial year and until the date of this report are as set out below, with qualifications, experience and special responsibilities.

**John Thame** AIBF, FCPA

Chairman (non-executive)
Member of Audit Committee
Member of Remuneration & Nomination Committee

Mr John Thame 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 is Chairman of St George Bank Limited and a director of Reckon Limited.

**Frank Wolf** PhD, BA Hons

Deputy Chairman (executive)

Dr Frank Wolf 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 $2 billion worth of property related transactions, corporate acquisitions and divestments and has financed specialist property-based assets in retirement and hospitality sectors. Dr Wolf is the Chairman of FSP Group Pty Limited and a Director of financial planning groups Financial Services Partners Pty Limited, Vector Financial Services Limited and Kingston Capital Limited as well as of HGL Limited, a diversified publicly listed investment company.

**David Bastian** CPA

Managing Director

Mr David Bastian has almost 40 years experience in the financial services industry, in particular in the packaging of commercial, retail and residential property projects. He was 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 also a director of FSP Group Pty Limited and financial planning groups Vector Financial Services Limited and Kingston Capital Limited.

# DIRECTORS' REPORT

**30 June 2005**

**INFORMATION ON DIRECTORS AND OFFICERS continued**

| | |
|---|---|
| **Dennis Bluth**<br>LLM, LLB, BA | Non-executive Director<br>Chairman of Credit Committee<br>Chairman of Due Diligence Committee<br>Member of Audit Committee<br>Member of Remuneration & Nomination Committee |

Mr Dennis Bluth holds Bachelor of Arts, Bachelor of Law and Masters of Law degrees and has practised as a solicitor for over 25 years, principally in the area of property law. Mr Bluth is a partner with Abbott Tout Solicitors of Sydney, Canberra and Brisbane and is a member of a number of Law Society and Law Council Committees. He was formerly a director of Godfrey Pembroke Financial Services Limited.

| | |
|---|---|
| **Phillip Green** LLB, BCom | Non-executive Director |

Mr Phillip Green is Managing Director of Babcock & Brown Limited. Mr Green has over 25 years experience in corporate finance specialising in taxation and structured domestic and international corporate acquisitions. He is also a director of a number of companies including Chairman of Babcock & Brown Infrastructure Limited, Babcock & Brown Environmental Investments Limited and of the responsible entity of the MTM Entertainment Trust, and is a director of Babcock & Brown Capital Limited, Everest Babcock & Brown Alternative Investments, Thakral Holdings Limited, the trustee of the Babcock & Brown Japan Property Trust, Tourism Asset Holdings Limited, FSP Group Pty Limited and Prime Infrastructure Management Limited.

Mr Green holds Bachelor of Commerce and Bachelor of Law degrees and qualified as a Chartered Accountant.

| | |
|---|---|
| **Malcolm Irving** AM<br>FCPA, FSIA, BCom,<br>Hon DLitt | Non-executive Director<br>Chairman of Audit Committee<br>Chairman of Remuneration & Nomination Committee |

Mr Malcolm Irving has over 40 years experience in company management, including 12 years as Managing Director of CIBC Australia Limited. Mr Irving is Chairman of Australian Industry Development Corporation, the Australian River Company Limited, Willis Australia Limited Group and Keycorp Limited. He is also a director of O'Connell Street Associates Pty Ltd Group, ADI Limited and Resimac Limited.

| | |
|---|---|
| **Len Lloyd** FAPI, LREA | Executive Director (Abacus Group Holdings Limited) |

Mr Len Lloyd is a licensed Real Estate Agent and a registered Real Estate Valuer. His experience includes the development, management and funding of commercial, retail and residential property. Mr Lloyd joined the Abacus 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 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.

| | |
|---|---|
| **Sean O'Donoghue** BCom,<br>CA, MBA | Company Secretary |

Mr Sean O'Donoghue has been the Company Secretary since joining the Abacus Group in September 2004. Mr O'Donoghue has over 14 years experience in the property and financial services industries having held various senior roles with MLC, Lend Lease Corporation and Commonwealth Bank over that period.

# DIRECTORS' REPORT

**30 June 2005**

**INFORMATION ON DIRECTORS AND OFFICERS continued**

The Directors and Officers were in office from the beginning of the financial year until the date of this report unless otherwise stated.

A number of Board sub-committees exist to ensure efficient monitoring and delivery of Board polices.

The Audit Committee is chaired by Malcolm Irving. Its purpose is to ensure that an effective framework exists through the establishment and maintenance of adequate internal controls to safeguard assets and to ensure the integrity and reliability of the financial and management reporting systems.

The Due Diligence Committee is chaired by Dennis Bluth. The Committee reviews and makes recommendations for major acquisitions, new syndications and preparation of associated product disclosure statements.

The Remuneration & Nomination Committee is chaired by Malcolm Irving. The committee reviews and makes recommendations on remuneration packages and other items of employment for executive and non-executive directors and the senior management of the Group. In addition, the committee review and approve nominations for new senior management appointments.

As at the date of this report, the relevant interests of the directors and specified executives in the stapled securities of Abacus Property Group were as follows:

| **Specified Directors**: | |
|---|---|
| John Thame | 43,000 |
| Frank Wolf | 6,818,046 |
| David Bastian | 7,040,000 |
| Phillip Green | 9,366,930 |
| Malcolm Irving | 24,000 |

| **Specified executives:** | |
|---|---|
| John L'Estrange | Nil |
| Sean O'Donoghue | Nil |
| Peter Strain | 10,000 |
| Kim Kitchen | 13,492 |
| Claire Bibby | 8,500 |

The directors are not party to any contract under which the directors may be entitled to a benefit or that confers a right to call for or deliver interests in the Group.

## Employees

The Abacus Property Group employed 44 employees (including directors) as at 30 June 2005 (2004: 41 employees). This includes 10 employees whose salary is fully recoverable from specific properties managed by the Group.

## Directors' Meetings

The number of meetings of directors of Abacus Funds Management Limited, Manager of the Abacus Property Group (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

# DIRECTORS' REPORT

**30 June 2005**

**INFORMATION ON DIRECTORS AND OFFICERS continued**

### Directors' Meetings continued

| | Board | Audit Committee | Due Diligence Committee [1] | Nomination & Remuneration Committee | Credit Committee |
|---|---|---|---|---|---|
| Number of meetings held: | 24 | 5 | 8 | 3 | 31 |
| Number of meetings attended: | | | | | |
| J Thame | 23 | 5 | - | 3 | - |
| F Wolf | 24 | - | 8 | - | 31 |
| D Bastian | 23 | - | 8 | - | 30 |
| D Bluth | 24 | 5 | 8 | 3 | 31 |
| P Green | 15 | - | - | - | - |
| M Irving | 24 | 5 | - | 3 | - |
| L Lloyd [2] | 14 | - | - | - | - |
| D Brodie [3] | - | - | - | - | 31 |
| G Broome [3] | - | - | - | - | 6 |

1. Membership to the due diligence committee changes in relation to projects. The directors attended all meetings of the committee in which they have been appointed as members.
2. Mr Len Lloyd is a director of Abacus Group Holdings Limited only. Meetings of Abacus Group Holdings Limited and Abacus Funds Management Limited were held concurrently.
3. Mr G Brodie and Mr G Broome are external members of the Credit Committee. Mr G Broome joined the Credit Committee in early May 2005.

### Directors' Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit, other than any benefit disclosed in the financial statements as emoluments or the fixed salary of a full-time employee of the group or a related corporate by reason of a contract made by the Group or a related body corporate with the director or a with a firm of which he is a member, or with an entity in which he has a substantial financial interest.

### Indemnification and Insurance of Directors and Officers

The Manager of the Group, Abacus Funds Management Limited, has paid an insurance premium in respect of a contract insuring its directors and full time executive officers and secretary. The terms of this policy prohibit disclosure of the nature of the risks insured or the premium paid.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental responsibilities, such as waste removal and water treatment, have been managed in compliance with all applicable regulations and licence requirements and in accordance with industry standards. No breaches of requirements or additional environmental issues have been discovered nor brought to the board's attention. There has been no known significant breaches of any environmental requirements applicable to the Group.

# DIRECTORS' REPORT
**30 June 2005**

### STAPLED SECURITY OPTIONS

No options were granted over any stapled securities in the group during the financial year nor are there options outstanding as at the date of this report.

### REGISTER OF SECURITY HOLDERS

The register of security holders has, during the year ended 30 June 2005, been properly drawn up and maintained so as to give a true account of the security holders of the Group.

### AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young, and such declaration is shown on page 60.

### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Group support and adhere to the principles of corporate governance. The Group's Corporate Governance Statement is contained in the Corporate Governance section of the annual report.

### ROUNDING

The amounts contained in this report and in the annual financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the group under ASIC Class Order 98/0100. The group is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.
Abacus Funds Management Limited (ABN 66 007 415 590)
Abacus Group Holdings Limited (ABN 31 080 604 619)

| | |
|---|---|
| John Thame | David Bastian |
| Chairman | Managing Director |

Sydney, 13 September 2005

# COMBINED STATEMENTS OF FINANCIAL PERFORMANCE AND DISTRIBUTION

**YEAR ENDED 30 June 2005**

| | | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | **Notes** | **$'000** | $'000 |
| **REVENUES FROM ORDINARY ACTIVITIES** | 2 | 70,539 | 118,690 |
| Share of net profits of joint ventures accounted for using the equity method | 2 | 1,561 | 4,291 |
| Depreciation and amortisation expenses | 3 | (2,049) | (2,014) |
| Carrying amount of investment properties disposed | | (3,919) | (64,747) |
| Carrying amount of options disposed | | (2,957) | - |
| Borrowing costs expense | 3 | (9,251) | (8,159) |
| Salaries and employee benefits expense | | (6,011) | (4,721) |
| Bad and doubtful debts | 3 | 861 | (449) |
| Other expenses from ordinary activities | 3 | (8,634) | (7,973) |
| **PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | **40,140** | **34,918** |
| Income tax expense relating to ordinary activities | 4 | (356) | (193) |
| **NET PROFIT AFTER TAX** | | **39,784** | **34,725** |
| Net profit attributable to outside equity interest | | (678) | - |
| **NET PROFIT ATTRIBUTABLE TO STAPLED SECURITY HOLDERS OF THE GROUP** | | **39,106** | **34,725** |
| Transaction costs on issue of stapled securities | 21(b) | (2,454) | - |
| Net increase in asset revaluation reserve | 22(a)(i) | 12,059 | 7,797 |
| Decrease in foreign currency translation reserve | 22(b) | (210) | - |
| Adjustment resulting from changes in associated entities | 22(c) | (279) | - |
| **TOTAL REVENUES, EXPENSES, AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO STAPLED SECURITY HOLDERS OF THE GROUP AND RECOGNISED DIRECTLY IN EQUITY** | | **9,116** | **7,797** |
| **TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STAPLED SECURITY HOLDERS AS OWNERS** | | **48,222** | **42,522** |
| **Basic and diluted earnings per stapled security (cents)** | 26 | 12.18 | 12.84 |

| | | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | **Notes** | $'000 | $'000 |
| **STATEMENT OF DISTRIBUTION** | | | |
| Net profit attributable to stapled security holders of APG | | 39,106 | 34,725 |
| Net transfer of undistributed income to members' funds | | (2,167) | (4,366) |
| **Distributions paid and payable** | 5(b) | 36,939 | 30,359 |
| Distribution per stapled security (cents per unit) | | 11.40 | 11.23 |

## COMBINED STATEMENT OF FINANCIAL POSITION
**AS AT 30 June 2005**

| | | COMBINED | |
|---|---|---|---|
| | | Jun-05 | Jun-04 |
| | Notes | $'000 | $'000 |
| **CURRENT ASSETS** | | | |
| Cash assets | 23(b) | 4,417 | 24,367 |
| Receivables | 6 | 20,086 | 28,389 |
| Investment properties | 7(a) | 18,624 | 20,921 |
| Other financial assets | 8 | 98,309 | 55,440 |
| Other | 9 | 1,500 | 1,062 |
| **TOTAL CURRENT ASSETS** | | 142,936 | 130,179 |
| **NON - CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | 133 | 171 |
| Investment properties | 7(b) | 333,416 | 198,605 |
| Investments accounted for using the equity method | 11 | 13,763 | 8,778 |
| Other financial assets | 13 | 71,180 | 45,726 |
| Deferred tax assets | 4 | 614 | 206 |
| Intangible assets | 14 | 30,619 | 32,394 |
| Other | 15 | 859 | - |
| **TOTAL NON-CURRENT ASSETS** | | 450,584 | 285,880 |
| **TOTAL ASSETS** | | 593,520 | 416,059 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Payables | 16 | 5,528 | 3,396 |
| Interest-bearing liabilities | 17 | 29,850 | 98,135 |
| Current tax liabilities | 4 | 780 | (123) |
| Provisions | 18 | 10,138 | 8,410 |
| **TOTAL CURRENT LIABILITIES** | | 46,296 | 109,818 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing liabilities | 19 | 142,914 | 3,100 |
| Provisions | 20 | 505 | 397 |
| **TOTAL NON-CURRENT LIABILITIES** | | 143,419 | 3,497 |
| **TOTAL LIABILITIES** | | 189,715 | 113,315 |
| | | | |
| **NET ASSETS** | | **403,805** | **302,744** |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 21 | 351,825 | 266,334 |
| Reserves | 22(a,b) | 37,900 | 26,398 |
| Retained earnings | 22(c) | 12,247 | 10,012 |
| Total parent interest in equity | | 401,972 | 302,744 |
| Total outside equity interest | | 1,833 | - |
| **TOTAL EQUITY** | | **403,805** | **302,744** |

# COMBINED STATEMENT OF CASH FLOWS

**YEAR ENDED 30 June 2005**

| | | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | **Notes** | **$'000** | $'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income receipts | | 34,831 | 32,372 |
| Interest received | | 7,636 | 10,302 |
| Distributions received | | 300 | 380 |
| Income tax expense (paid)/received | | 139 | (3,574) |
| Audit fees | | (112) | (120) |
| Custody fees paid | | (73) | (54) |
| Borrowing costs | | (9,129) | (7,824) |
| Operating payments | | (9,479) | (9,114) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 23(a) | **24,113** | **22,368** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for investments | | (332,064) | (145,882) |
| Proceeds from sale and settlement of investments | | 235,642 | 110,896 |
| Consolidation of a controlled entity | | 5,410 | - |
| Purchase of a controlled entity | | (34) | - |
| Purchase of plant and equipment | | (27) | - |
| Purchase of investment properties | | (130,580) | (13,775) |
| Disposal of investment properties | | 17,474 | 56,206 |
| **NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES** | | **(204,179)** | **7,445** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of stapled securities | | 85,146 | - |
| Repayment of borrowings | | (188,870) | (40,004) |
| Proceeds from borrowings | | 298,954 | 34,733 |
| Distributions paid | | (35,114) | (29,341) |
| **NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES** | | **160,116** | **(34,612)** |
| **NET DECREASE IN CASH HELD** | | (19,950) | (4,799) |
| Add opening cash brought forward | | 24,367 | 29,166 |
| **CLOSING CASH CARRIED FORWARD** | 23(b) | **4,417** | **24,367** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The financial report is a general–purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The financial report has been prepared in accordance with the historical cost convention except for investment properties, investments in listed securities and option investments which are carried at fair value, and for investments in joint ventures which are equity accounted.

Accounting policies are consistent with those of the prior year unless otherwise stated. During the year, the method of estimating the provision for doubtful debts has been revised. Previously the general provision for doubtful debts on mortgage loans was established based on 5% of loan interest income. In anticipation of adopting Australian equivalents to International Financial Reporting Standards (AIFRS), the estimate is now based on specific provisions.

### (b) Principles of aggregation

The combined financial statements include the aggregated financial statements of Abacus Trust and its controlled entities and Abacus Group Holdings Limited and its controlled entities referred to collectively throughout these financial statements as the "Abacus Property Group" or "Group".

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the combined financial statements include the results for that part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### (c) Dividends and distributions

Distributions to APG security holders were paid by the Abacus Trust. In accordance with the Constitution of the Abacus Trust, the Trust fully distributes its distributable income to security holders. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the taxable income of the Trust. Distributable income may include capital gains arising from the disposal of investments and tax deferred income. Unrealised gains and losses on investments that are recognised as income are retained and are generally not assessable or distributable until realised. Capital losses are not distributed to security holders but are retained to be offset against any realised capital gains.

A provision for dividend or distribution is recognised in the Statement of Financial Position if the provision has been declared, determined or publicly recommended prior to balance date.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (d) Cash and cash equivalents

Cash on hand and in banks are stated at nominal value.

For the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days.

### (e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

### (f) Investment properties

*Cost and valuation*

Land and buildings are considered to have the function of an investment and are therefore regarded as a composite asset and are referred to in these accounts as "investment properties". Accounting Standard AASB 1021 "Depreciation" does not require investment properties to be depreciated. Accordingly, the buildings and components thereof (including plant and equipment) are not depreciated. However, investment properties are depreciated for tax purposes prior to the distribution of any taxable income to security holders.

Investment properties are carried at fair value. Independent valuations of investment properties are obtained at intervals of not more than three years from suitably qualified property valuers. Such valuations are reflected in the financial statements of the Group. Notwithstanding, the directors of the Responsible Entity assess the carrying value of each investment property at each reporting date to ensure its carrying value does not materially differ from its fair value. Where necessary, the investment property is revalued to reflect its fair value being the amount which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date.

When assets have been revalued in respect of the Trust, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount because the Trust does not expect to be ultimately liable for CGT in respect of the assets.

Expenditures capitalised to properties include the cost of acquisition, capital and refurbishment additions, and during development includes financing charges and related professional fees incurred.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(g) Investments**

Listed securities and option investments held for trading are carried at net market value. The net market value of listed securities is determined by reference to the last available sales price quoted on a relevant exchange on the day of valuation.

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the combined financial report.

All other non-current investments are carried at the lower of cost and recoverable amount.

**(h) Plant and equipment**

*Cost and valuation*
All classes of plant and equipment are measured at cost.

*Depreciation*
Depreciation is provided on a straight-line basis on all plant and equipment.

| Major depreciation periods are: | Jun 05 | Jun 04 |
|---|---|---|
| Plant and equipment | 5-15 years | 5-15 years |

**(i) Equity-accounted investments**

Interest in the joint venture operation is recognised by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

Interests in joint venture partnerships and in associates are carried at the lower of the equity-accounted amount and recoverable amount in the combined financial report.

**(j) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight-line basis over the period during which benefits are expected to be received. This is taken as being 20 years.

**(k) Payables**

Payables represent liabilities to trade and other creditors for goods and services provided to the Group, whether or not billed, and are unpaid as at the end of the financial year. The amounts are non-interest bearing and are normally settled on 30 day terms.

**(l) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

### (m) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Group.

Any transaction costs arising on the issue of the stapled securities are recognised directly in equity as a reduction of the proceeds received.

### (n) Foreign currency translation

Both the functional and presentation currency of the Group is Australian dollars ($).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

The functional currency of the overseas associated entities is pound sterling (£).

As at the reporting date the investments in overseas associated entities are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date. The exchange differences are taken directly to a separate component of equity.

On disposal of investments in overseas associated entities, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

### (o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Operating leases*

The rental income from operating leases is recognised in accordance with the terms of the lease agreements and other constituent documents.

*Investment Income*

Revenue from lending or other investment activities is recognised in accordance with the terms set out in the mortgage or loan documentation.

*Revenue from sale of investment properties*

Revenue from sale of investment properties is recognised on exchange of unconditional contract of sale.

*Net increment in market value of investments*

Change in net market value of investments is recognised as revenue or expense in determining the net profit for the year.

*Fees*

Revenue from fees is recognised in accordance with the terms and conditions of the agreements.

*Interest*

Control of the right to receive the interest payment.

*Dividends and Distributions*

Control of the right to receive the distribution payment.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(p) Leasing Fees**

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are deferred and amortised over the lease term in proportion to the rental revenue recognised in each financial year.

**(q) Leasing Incentives**

Lease incentives in the form of up-front payments, contributions to certain lessees' costs, relocation costs and fitouts that are offered in relation to the ongoing operation of the property are recognised as an asset and amortised over the period to which the lease relates.

Incentives provided to lessees in the form of lessor-paid fitouts and improvements that remain assets of the lessor, for example by becoming part of the structure of the property which is retained beyond the lease term, are capitalised to the carrying value of the property.

**(r) Taxes**

*Company income taxes*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

*Trust income taxes*

Under current income tax legislation a trust is not subject to income tax provided the security holders are presently entitled to the taxable income of the Trust and the Trust fully distributes its taxable income.

*Goods and Services Tax (GST)*

Revenues derived and expenses incurred by the Group are recognised net of any amount of GST that is payable or can be recovered from the Australian Taxation Office (ATO). Amounts recognised as receivables and payables at balance date include the amount of GST receivable or payable.

Reduced input tax credits (RITC) recoverable by the Group from the ATO are recognised as receivables in the statement of Financial Position.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (s) Employee entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at amounts expected to be paid when liabilities are settled.

All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlement expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave, and other leave entitlements; and
- other types of employee entitlements

are recognised against profits on a net basis in their respective categories.

### (t) Derivative financial instruments

*Interest rate swaps*

Abacus Property Group enters into interest rate swap agreements that are used to convert the variable interest rate of its short-term borrowings to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

It is the Group's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

### (u) Earnings per stapled security (EPSS)

Basic EPSS is calculated as net profit attributable to stapled security holders, adjusted to exclude costs of servicing equity (other than distributions), divided by the weighted average number of stapled securities on issue during the year under review.

### (v) Transfers to (from) total equity

Unrealised gains and losses in the net value of investments, accrued income not yet assessable and expenses provided for or accrued not yet deductible, net capital losses and tax free or tax deferred amounts maybe transferred to equity and may not be included in the determination of distributable income.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (w) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | |
| **Revenues from operating activities** | | | |
| Property rental income | | 30,336 | 22,847 |
| Interest income from mortgage investments | | 14,349 | 12,897 |
| Fee income from mortgage investments | | 917 | 636 |
| Revenue from sale of investment properties | | 6,436 | 73,318 |
| Revenue from sale of 50% interest in options | | 5,000 | - |
| Property management fees | | 692 | 575 |
| Fund management fees | | 2,540 | 1,442 |
| Consulting and other fees | | 5,662 | 3,020 |
| Total revenues from operating activities | | 65,932 | 114,735 |
| **Revenues from non-operating activities** | | | |
| Distributions from investments in units | | 505 | 3,148 |
| Gains on disposal of investments in units | | 770 | - |
| Change in market value of investments | | 2,167 | - |
| Bank interest | | 1,165 | 807 |
| Total revenues from non-operating activities | | 4,607 | 3,955 |
| **Total revenues from ordinary activities** | | **70,539** | **118,690** |
| **Share of net profit of joint ventures accounted for using the equity method** | | | |
| Share of joint venture profits | 11 | **1,561** | **4,291** |
| **Gains** | | | |
| Net gains on disposal of non-current assets | | **4,231** | **6,999** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | COMBINED Jun-04 $'000 |
|---|---|---|---|
| **3. EXPENSES AND LOSSES (GAINS)** | | | |
| **Expenses** | | | |
| Depreciation of non-current assets | | | |
| Plant and equipment | | 48 | 49 |
| **Total depreciation of non-current assets** | | 48 | 49 |
| Amortisation of non-current assets | | | |
| Finance costs | | 20 | 19 |
| Goodwill | | 1,775 | 1,775 |
| Leasehold alterations | | 190 | 155 |
| Software | | 16 | 16 |
| **Total amortisation of non-current assets** | | 2,001 | 1,965 |
| **Total depreciation and amortisation expenses** | | **2,049** | **2,014** |
| Borrowing costs expensed | | | |
| Interest expense | | 9,251 | 8,159 |
| **Total borrowing costs expensed** | | **9,251** | **8,159** |
| **Bad and doubtful debts** | | **(861)** | **449** |
| Other expenses | | | |
| Property outgoings | | 5,551 | 4,161 |
| Expenses on sales of investment properties | | 329 | 1,573 |
| Auditor's remuneration | | 179 | 107 |
| Custody fees | | 82 | 47 |
| Registry maintenance costs | | 137 | 111 |
| Rental expenses | | 314 | 268 |
| Other | | 2,042 | 1,706 |
| **Total other expenses** | | **8,634** | **7,973** |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **4. INCOME TAX** | | | |
| The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows: | | | |
| Net profit from ordinary activities before income tax | | 40,140 | 34,918 |
| Less net profit attributable to Abacus Trust | | (37,340) | (35,374) |
| Less net profit attributable to a partly-owned trust | | (3,219) | - |
| **Loss from ordinary activities before income tax** | | **(419)** | **(456)** |
| **Prima facie tax on profit/(loss) from ordinary activities** | | **(126)** | **(137)** |
| Trusts' income not subject to tax | | | |
| Tax effect of permanent differences | | | |
| Capital expenses | | - | (79) |
| Depreciation | | (56) | (45) |
| Amortisation of intangible assets | | 533 | 533 |
| Non-assessable capital gain | | - | 273 |
| Other items (net) | | 5 | (352) |
| Income tax expense attributable to ordinary activities | | **356** | **193** |
| **Deferred tax assets and liabilities** | | | |
| Current tax payable | | 6 | (144) |
| Provision for deferred income tax - current | | 774 | 21 |
| Total current | | 780 | (123) |
| Future income tax benefit - non-current | | 614 | 206 |

**Tax consolidation**

Effective 1 July 2002, for purposes of income taxation, Abacus Group Holdings Limited and its 100% owned subsidiaries formed a tax consolidation group. Members of the group entered into a tax sharing agreement providing for allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date the possibility of default is remote. The head entity of the tax consolidated group is Abacus Group Holdings Limited.

## NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **5. DISTRIBUTIONS PAID OR PROVIDED FOR ON STAPLED SECURITIES** | | | |
| **(a) Distributions proposed and recognised as a liability** | | | |
| Distribution (2.90c per stapled security) (2004: 3.00c) | | 9,942 | 8,117 |
| **(b) Distributions paid during the year** | | | |
| *(i) Current year interim* | | | |
| Distribution – Sep 2004 (2.80c per stapled security) | | 8,328 | 7,098 |
| Distribution – Dec 2004 (2.80c per stapled security) | | 8,727 | 7,572 |
| Distribution – Mar 2005 (2.90c per stapled security) | | 9,942 | 7,572 |
| | | **36,939** | **30,359** |
| *(ii) Previous year final* | | | |
| Distribution (3.00c per stapled security) (2003: 2.63c) | | 8,117 | 7,099 |

The distributions were paid from the Abacus Trust (which does not pay tax provided it distributes all its taxable income) hence there were no franking credits attached.

| | | | |
|---|---|---|---|
| **(c) Franking credit balance** | | | |
| The amount of franking credits available for the subsequent financial year are: | | | |
| - franking account balance as at the end of the financial year at 30% | | 5,584 | 5,708 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year | | 6 | - |
| | | **5,590** | **5,708** |
| **6. RECEIVABLES** | | | |
| Trade debtors | | 2,889 | 9,215 |
| Short-term deposits | | 132 | 132 |
| Property sales receivable | | 2,370 | 13,901 |
| Related party receivables | | 9,042 | 518 |
| Other debtors | | 5,653 | 4,623 |
| **Total receivables** | | **20,086** | **28,389** |

**(a) Terms and conditions**

Terms and conditions relating to the above financial instruments:

(i ) Trade debtors, other debtors and related party receivables are non-interest bearing and generally on 30 day terms.

(ii) Terms and conditions of contracts of sale of property vary but settlement is normally within 3 months after exchange.

(iii) Short-term deposits have an average maturity of 180 days at a fixed interest rate which has averaged 5.13% for the year (2004: 5.15%).

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 7. INVESTMENT PROPERTIES

| Property | Acquisition date | Cost including all additions $'000 | Independent valuation date | $'000 | Combined value Jun-05 note (a) $'000 | Combined value Jun-04 $'000 |
|---|---|---|---|---|---|---|
| **(a) Current asset** | | | | | | |
| 109 Pitt Street, Sydney, NSW (see note (b) below) | 22-Jun-99 | 17,622 | | | 18,624 | 20,921 |
| **Current asset - Investment properties** | | | | | 18,624 | 20,921 |
| **(b) Non-current assets** | | | | | | |
| 66 Christina Road, Villawood, NSW (i) | 28-May-02 | 8,147 | 31-Jan-02 | 7,500 | 8,147 | 8,094 |
| CSIRO, Limestone Ave., Campbell, ACT (v) | 21-Jun-02 | 12,685 | 30-Jun-05 | 15,200 | 15,200 | 14,000 |
| 4 Ray Road, Epping, NSW (ii) | 30-Apr-97 | 26,960 | 30-Jun-05 | 44,000 | 44,000 | 40,339 |
| 431 Glebe Point Road, Glebe, NSW (iii) | 23-Sep-97 | 10,585 | 31-Dec-03 | 12,500 | 12,562 | 12,538 |
| Ashfield Mall, Ashfield, NSW (iv) | 15-Sep-97 | 70,416 | 30-Jun-05 | 98,700 | 98,700 | 89,055 |
| 10-12 Pike Street, Rydalmere, NSW (v) | 1-Oct-98 | 14,262 | 30-Jun-05 | 17,000 | 17,000 | 16,009 |
| Liverpool Plaza, Liverpool, NSW (iv) | 16-Aug-04 | 31,776 | 30-Jun-05 | 32,600 | 32,600 | - |
| Santos House, Adelaide SA (iv) | 5-Oct-04 | 54,234 | 30-Jun-05 | 51,000 | 51,000 | - |
| 50 Miller Street, North Sydney, NSW (ii) | 17-Dec-04 | 38,284 | 30-Jun-05 | 38,600 | 38,600 | - |
| **Properties owned by Abacus Trust and its controlled entities** | | | | | 317,809 | 180,035 |
| 244 Liverpool Road, Ashfield, NSW (iv) | 26-Mar-98 | 2,507 | | | 2,507 | 2,507 |
| 252 Liverpool Road, Ashfield, NSW (iv) | 2-Mar-00 | 1,107 | | | 1,107 | 1,107 |
| 254 Liverpool Road, Ashfield, NSW (iv) | 31-Aug-01 | 2,662 | | | 2,662 | 2,662 |
| 256 Liverpool Road, Ashfield, NSW (iv) | 29-Sep-98 | 820 | | | 820 | 820 |
| Independent valuation, 244-256 Liverpool Road | | | 30-Jun-05 | 6,900 | (196) | 304 |
| Project development costs | | 657 | | | 657 | 458 |
| | | | | | 7,557 | 7,858 |
| Hornsby Crescent, Hornsby (c) | | | | | - | 5,557 |
| Macarthur Ave, Pinkenba Qld (ii) | 11-Nov-04 | 3,278 | 30-Jun-05 | 3,150 | 3,150 | - |
| 4-8 Jacobs Street, Bankstown (vi) | 2-Dec-02 | 5,147 | 30-Jun-05 | 4,900 | 4,900 | 5,155 |
| **Properties owned by AGHL and its controlled entities** | | | | | 15,607 | 18,570 |
| **Non-current - Investment properties** | | | | | 333,416 | 198,605 |
| **Total investment properties** | | | | | **352,040** | **219,526** |

(i) As valued by Knight Frank Pty Limited

(ii) As valued by Colliers International Consultancy and Valuation Pty Ltd

(iii) As valued by Urbis Property Consultants

(iv) As valued by CB Richard Ellis Pty Ltd

(v) As valued by FPD Savills (NSW) Pty Limited

(vi) As valued by DTZ Australia

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 7. INVESTMENT PROPERTIES continued

**Notes:**

(a) The combined value at 30 June 2005 includes capital expenditures after the last valuation date.

(b) The property at 109 Pitt Street is currently under refurbishment and has been subdivided into strata units. The retail component and the leasehold interest in the car park were sold in prior financial years while the sale of the commercial units continues at 30 June 2005.

(c) This reflects the 50% interest in the Hornsby joint venture, a residential project consolidated in the prior year. The joint venture agreement relating to this project was terminated during the year and, accordingly, the property has been deconsolidated for the year ended 30 June 2005.

(d) The investment properties are used as security over the bank loans (see notes 17 and 19).

| | **Combined value** | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| **Reconciliations** | | |
| Reconciliation of the carrying amounts of investment properties at the beginning and end of the current and previous financial year: | | |
| *Investment properties* | | |
| Carrying amount at beginning of the financial year | 219,526 | 261,894 |
| Additions | 129,489 | 14,582 |
| Net revaluation increments | 11,712 | 7,797 |
| Disposals | (8,687) | (64,747) |
| Carrying amount at end of the financial year | **352,040** | **219,526** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **8. OTHER FINANCIAL ASSETS (CURRENT)** | | | |
| Investment in mortgage loans - secured | (a) | 87,253 | 48,363 |
| Interest on mortgage loans | | 11,912 | 7,077 |
| Provision for doubtful debts | | (856) | - |
| | | **98,309** | **55,440** |

(a) Mortgages are secured by real property assets. Weighted average interest rate was 14.44% pa as at 30 June 2005 (2004: 16.56%). Repayment dates are on or before 30 June 2006.

| | | | |
|---|---|---|---|
| **9. OTHER CURRENT ASSETS** | | | |
| Refundable deposits | | 2 | - |
| Prepayments | | 1,498 | 1,062 |
| Total other assets | | **1,500** | **1,062** |
| **10. PROPERTY, PLANT AND EQUIPMENT** | | | |
| Plant and equipment | | | |
| At cost | | 560 | 536 |
| Accumulated depreciation | | (427) | (365) |
| Total written down amount | | **133** | **171** |

**Reconciliations**

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.

| | | | |
|---|---|---|---|
| Carrying amount at beginning of the financial year | | 171 | 177 |
| Acquisitions | | 36 | 59 |
| Disposal of motor vehicle | | (10) | - |
| Depreciation and amortisation expense | | (64) | (65) |
| Carrying amount at end of the financial year | | **133** | **171** |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD** | | | |
| Investment in associates | (a) | 2,540 | - |
| Investment in joint ventures | (b) | 11,223 | 8,778 |
| | | **13,763** | **8,778** |

| **(a) INTEREST IN ASSOCIATES** Name | Balance Date | Ownership interest held by combined entity Jun-05 % | Jun-04 % |
|---|---|---|---|
| Stanright Limited | 30 June | 40 | - |

*(i) Principal activity*

The principal activity of Stanright Limited is investment in a 50% interest in the leasehold of Grant Thornton House, UK.

| | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|
| *(ii) Share of associates' profits (losses)* | | |
| Share of associates': | | |
| - net profit before income tax | 6 | - |
| - income tax expense attributable to net profit | - | - |
| Share of associates' net profits | **6** | **-** |
| *(iii) Carrying amount of investment in associates* | | |
| Balance at the beginning of financial year | - | - |
| - investments during the year | 2,534 | - |
| - share of associates' net result | 6 | - |
| Carrying amount of investment in associates at the end of the financial year | **2,540** | **-** |
| *(iv) Share of associates' assets and liabilities* | | |
| Total assets | 12,282 | - |
| Total liabilities | (12,319) | - |
| Net assets | **(37)** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

| (b) INTEREST IN JOINT VENTURES Name | Balance Date | Ownership interest held by combined entity Jun-05 % | Jun-04 % |
|---|---|---|---|
| Abacus Private Equity Fund Neutral Bay | 30-Jun | 50 | 50 |
| 40 Yeo Street Pty Limited | 30-Jun | 50 | 50 |
| Abacus Rosebery Property Trust | 30-Jun | 50 | 50 |
| Abacus Nominees (No 4) Pty Limited | 30-Jun | 50 | 50 |
| Telak Close Pty Limited | 30-Jun | 50 | 50 |
| Willoughby Development Trust | 30-Jun | 50 | 50 |
| Brooklands Motel Mornington Pty Ltd | 30-Jun | - | 50 |
| The Mornington Investment Unit Trust | 30-Jun | - | 50 |
| Pakenham Valley Pty Ltd | 30-Jun | 50 | 50 |
| Pakenham Valley Unit Trust | 30-Jun | 50 | 50 |
| Corporate Helpers Pty Ltd | 30-Jun | 50 | 50 |
| The Main Street Packenham Unit Trust | 30-Jun | 50 | 50 |
| Highett Apartments Pty Limited | 30-Jun | 33 | 50 |
| The Highett Apartments Unit Trust | 30-Jun | 50 | 50 |
| Highett Plaza Pty Ltd | 30-Jun | 50 | 50 |
| Highett Plaza Unit Trust | 30-Jun | 50 | 50 |

*(i) Principal activities*

The associates and joint ventures acquire and develop commercial and residential investment properties intended for resale.

| | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|
| *(ii) Share of associates' and joint ventures' profits* | | |
| Share of associates' and joint ventures': | | |
| - net profit before income tax | 1,555 | 4,291 |
| - income tax expense attributable to net profit | - | - |
| Share of associates' and joint ventures' net profits | **1,555** | **4,291** |
| *(iii) Carrying amount of investment in associates and joint ventures* | | |
| Balance at the beginning of financial year | 8,778 | 4,504 |
| - share of associates' and joint ventures' net result | (387) | 4,291 |
| - investments acquired | 3,932 | 6,572 |
| - investments disposed | (1,100) | (6,589) |
| Carrying amount of investment in associates and joint ventures at the end of the financial year | **11,223** | **8,778** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

**11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued**

| | COMBINED | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| *(iv) Share of associates' and joint ventures' assets and liabilities* | | |
| Current assets | 2,355 | 15,380 |
| Non-current assets | 38,256 | 26,259 |
| Current liabilities | (75) | (17,400) |
| Non-current liabilities | (29,313) | (15,461) |
| **Net assets** | **11,223** | **8,778** |
| | | |
| *(v) Retained earnings of the Group attributable to the associates and joint ventures* | | |
| Balance at the beginning of the financial year | 781 | 782 |
| Share of profits of associates and joint ventures | 1,555 | 4,291 |
| Distribution of profits of associates and joint ventures | (1,942) | (4,292) |
| **Balance at the end of the financial year** | **394** | **781** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 12. CONTROLLED ENTITIES

| Name | % of equity interest held by the combined entity | | Investment | |
|---|---|---|---|---|
| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **%** | % | **$'000** | $'000 |
| **Subsidiaries of the Abacus Trust:** | | | | |
| Abacus Glebe Property Trust | 100 | 100 | 7,083 | 7,083 |
| Abacus Epping Park Property Trust | 100 | 100 | 29,547 | 25,663 |
| Abacus Ashfield Mall Property Trust | 100 | 100 | 57,908 | 48,962 |
| Abacus Industrial Property Trust | 100 | 100 | 8,902 | 7,902 |
| Abacus Campbell Property Trust | 100 | 100 | 2,514 | 1,315 |
| Abacus Mortgage Fund | 100 | 100 | 17,250 | 17,250 |
| Abacus Santos House Trust | 100 | 100 | (3,234) | - |
| Abacus Miller Street Trust | 100 | 100 | 316 | - |
| Abacus Liverpool Plaza Trust | 100 | 100 | 824 | - |
| **Interposed Trusts:** | | | | |
| Abacus Glebe Trust | 100 | 100 | - | - |
| Abacus Epping Trust | 100 | 100 | - | - |
| **Subsidiaries of Abacus Group Holdings Limited:** | | | | |
| Abacus Funds Management Limited | 100 | 100 | 38,500 | 38,500 |
| Abacus Finance Pty Limited | 100 | 100 | - | - |
| Abacus Property Income Fund | 100 | 100 | 37,725 | 37,725 |
| Abacus Pitt Street Property Trust | 100 | 100 | 21,477 | 21,825 |
| Abacus Hobart Growth Trust | 79 | - | 4,376 | - |
| Abacus Storage Funds Management Limited | 100 | - | 171 | - |
| Abacus Sunbury Pty Ltd | 100 | 100 | - | - |
| Abacus Bankstown Property Trust | 100 | 100 | - | - |
| Abacus Hornsby Pty Limited | 100 | 100 | - | - |
| Abacus Nominee Services Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 2) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 3) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 5) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 7) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 9) Pty Limited | 100 | 100 | - | - |
| Queen Street Development Pty Limited | 100 | 100 | - | - |
| Abacus Macarthur Trust | 100 | - | - | - |
| Amiga Pty Limited | 100 | 100 | - | - |
| Frengail Pty Limited | 100 | 100 | - | - |
| | | | **223,359** | **206,225** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **13. OTHER FINANCIAL ASSETS (NON-CURRENT)** | | | |
| Investments in mortgage loans - secured | (a) | 39,756 | 6,632 |
| Investments in mortgage loans - unsecured | (b) | 13,620 | 30,163 |
| Accrued interest on mortgage loans | | 1,188 | 2,168 |
| Provision for doubtful debts | | - | (1,867) |
| | | 54,564 | 37,096 |
| Investments in units - listed | | 13,659 | 2,568 |
| Investments in options - unlisted | | 2,957 | - |
| Investments in units - unlisted | | - | 6,062 |
| | | **71,180** | **45,726** |

(a) Mortgages are secured by real property assets. Repayment dates fall between January 2008 and May 2010. Weighted average interest rate was 12.2% pa at 30 June 2005 (2004: 14.82%).
(b) Interim funding is provided to other Abacus entities outside the Group to enable acquisition of properties ahead of receipt of funds from investors. The loans are unsecured and the facilities will mature from June 2008 to May 2010. Weighted average interest rate was 12.2% pa at 30 June 2005.

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **14. INTANGIBLES** | | | |
| Goodwill | | 35,500 | 35,500 |
| Accumulated amortisation | | (4,881) | (3,106) |
| | | **30,619** | **32,394** |
| **15. OTHER NON-CURRENT ASSETS** | | | |
| Leasing incentives | | 1,195 | - |
| Less accumulated amortisation | | (336) | - |
| | | **859** | **-** |
| **16. PAYABLES** | | | |
| Trade creditors | (a) | 36 | 250 |
| Other creditors | (a) | 821 | 686 |
| Related party payables | (a) | 838 | 364 |
| Goods and services tax | | 1,077 | 243 |
| Accrued expenses | | 2,756 | 1,853 |
| | | **5,528** | **3,396** |

(a) Trade and other creditors and related party payables are non-interest bearing and are normally settled on 30 day terms.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **17. INTEREST-BEARING LIABILITIES (CURRENT)** | | | |
| Borrowings secured by mortgage | | | |
| - bank loans | (a) | **29,850** | **98,135** |

(a) The bank loans are provided by several banks. Interest rates include both fixed and floating arrangements. The interest rates on fixed rate borrowings had a weighted average of 7.20% at year end (2004: 7.35%), while interest on floating rate borrowings are paid quarterly based on existing swap and yield rates quoted on the day. Repayment dates are on or before 30 June 2006.

The bank loans are secured by a charge over the investment properties as described in Note 7.

| | Notes | Jun-05 | Jun-04 |
|---|---|---|---|
| **18. PROVISIONS (CURRENT)** | | | |
| Distributions on stapled securities | 5(a) | 9,942 | 8,117 |
| Employee entitlements | 25 | 196 | 293 |
| | | **10,138** | **8,410** |
| **19. INTEREST-BEARING LIABILITIES (NON-CURRENT)** | | | |
| Borrowings secured by mortgage | | | |
| - bank loans | (a) | **142,914** | **3,100** |

(a) The bank loans are provided by several banks. Interest rates include both fixed and floating arrangements. The interest rates on fixed rate borrowings had a weighted average of 7.00% at year end while interest on floating rate borrowings are paid quarterly based on existing swap and yield rates quoted on the day. Repayment dates are on or before 1 July 2010. Total loan facilities existing at year end were $188.8 million the unused portion of which was $16.0 million at 30 June 2005.

The bank loan is secured by a charge over investment properties as described in Note 7.

| | Notes | Jun-05 | Jun-04 |
|---|---|---|---|
| **20. PROVISIONS (NON-CURRENT)** | | | |
| Employee entitlements | 25 | **505** | **397** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **21. CONTRIBUTED EQUITY** | | | |
| **(a) Issued stapled securities** | | | |
| Issued capital | | 360,600 | 272,655 |
| Finance and issue costs | | (8,775) | (6,321) |
| Total contributed equity | | **351,825** | **266,334** |

**(b) Movements in contributed equity for the year**

| | **Jun-05** | | Jun-04 | |
|---|---|---|---|---|
| | **Stapled securities** | | Stapled securities | |
| | **Number** | **Value** | Number | Value |
| | **'000** | **$'000** | '000 | $'000 |
| Beginning of the financial year | 270,420 | 266,334 | 270,420 | 266,334 |
| - security purchase plan | 14,249 | 16,815 | - | - |
| - institutional equity raising | 58,167 | 71,130 | - | - |
| - less transaction costs | - | (2,454) | - | - |
| End of the financial year | **342,836** | **351,825** | **270,420** | **266,334** |

**a. Terms and conditions of contributed equity**

Stapled security holders have the right to receive distributions as declared and, in the event of winding up of the group, to participate in the proceeds from sale of all surplus assets in proportion to the number of stapled securities held.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **22. RESERVES AND RETAINED PROFITS** | | | |
| **(a) Asset revaluation reserve** | | | |
| (i) Nature and purpose of reserve<br>The asset revaluation reserve is used to record increments and decrements in the value of investment properties. The reserve can only be used to pay dividends or distributions in limited circumstances. | | | |
| (ii) Movements in reserve | | | |
| Balance at beginning of year | | 26,398 | 14,462 |
| Revaluation increments on revaluation of investment properties | | 12,059 | 7,797 |
| Realised revaluation reserve on sale of investment properties | | (347) | 4,139 |
| Balance at end of year | | 38,110 | 26,398 |
| **(b) Foreign currency translation** | | | |
| (i) Nature and purpose of reserve<br>The foreign currency translation reserve is used to record exchange differences arising from the translation of the investments overseas. | | | |
| (ii) Movements in reserve | | | |
| Balance at beginning of year | | - | - |
| Loss on translation of investments in foreign associated entity | | (210) | - |
| Balance at end of year | | (210) | - |
| **Total reserves** | | **37,900** | **26,398** |
| **(c) Retained profits** | | | |
| Balance at the beginning of year | | 10,012 | 9,785 |
| Net profit attributable to stapled security holders | | 39,106 | 34,725 |
| Realised reserve on sale of investment properties | | 347 | (4,139) |
| Adjustment resulting from changes in associated entities | | (279) | - |
| Total available for appropriation | | 49,186 | 40,371 |
| Distributions provided for or paid | | (36,939) | (30,359) |
| Balance at end of year | | **12,247** | **10,012** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **23. STATEMENT OF CASH FLOWS** | | | |
| **(a) Reconciliation of the net profit after tax to the net cash flows from operations** | | | |
| Net profit | | 39,784 | 34,725 |
| Depreciation of non-current assets | | 48 | 95 |
| Amortisation of non-current assets | | 2,001 | 1,919 |
| Provision for doubtful debts | | (861) | 449 |
| Share of joint venture profits | | - | (368) |
| Unrealised loss on investments | | (978) | 19 |
| Net gain on sale of non-current assets | | (4,231) | (6,998) |
| Increase/(decrease) in payables | | 17,715 | 12,487 |
| Decrease/(increase) in receivables and other assets | | (29,365) | (19,960) |
| | | **24,113** | **22,368** |
| **(b) Reconciliation of cash** | | | |
| Cash balance comprises: | | | |
| Cash assets | | 4,417 | 24,367 |
| Closing cash balance | | **4,417** | **24,367** |
| **(c) Financing facilities available** | | | |
| At reporting date, the following financing facilities had been negotiated and were available: | | | |
| Total facilities | | | |
| - bank loans | | 188,764 | 126,113 |
| Facilities used at reporting date | | | |
| - bank loans | | (172,764) | (101,235) |
| Facilities unused at reporting date | | | |
| - bank loans | | **16,000** | **24,878** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

**23. STATEMENT OF CASH FLOWS continued**

**(d) Acquisition of Controlled Entities**
Abacus Property Group acquired 100% ownership of Abacus Storage Funds Management Limited. The components of the acquisition cost were:

| Entity | Notes | Date Acquired | Consideration **$'000** |
|---|---|---|---|
| Abacus Storage Funds Management Limited | | 31-May-05 | 172 |
| Total consideration | | | **172** |
| Net assets of the controlled entities at acquisition date: | | | |
| Cash | | | 138 |
| Receivables | | | 880 |
| Other financial assets | | | 4 |
| Payables | | | (676) |
| Other liabilities/provisions | | | (174) |
| | | | **172** |
| Net cash effect | | | |
| Cash consideration paid | | | (172) |
| Cash included in net assets acquired | | | 138 |
| Cash paid for purchase of controlled entities as reflected in the combined financial report | | | **(34)** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | COMBINED Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|
| **24. CAPITAL AND EXPENDITURE COMMITMENTS** | | | |
| **Joint ventures** | | | |
| The Group has remaining "at call" contributions to the joint venture projects to an aggregate amount of: | | 1,585 | 17,956 |
| **Other persons** | | | |
| (a) Projected expenditure outlay to complete the refurbishment of the property at 109 Pitt Street, Sydney | | 485 | 1,815 |
| (b) Unused portion of the loan facilities to outside parties | | 9,500 | - |
| **25. EMPLOYEE ENTITLEMENTS** | | | |
| The aggregate employee entitlement liability is comprised of: | | | |
| - provisions (current) | | 196 | 293 |
| - provisions (non-current) | | 505 | 397 |
| | | **701** | **690** |

### 26. EARNINGS PER STAPLED SECURITY

The following reflects the income and stapled securities data used in the calculation of basic and diluted earnings per share:

| | Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|
| Net profit attributable to members | **39,106** | **34,725** |

| | Number of stapled securities Jun-05 '000 | Jun-04 '000 |
|---|---|---|
| Weighted average number of stapled securities | **321,169** | **270,420** |

### 27. SUBSEQUENT EVENTS

On 10 August 2005, the Group completed a capital raising of $55.0 million and issued approximately 42.6 million securities. Of the total $55.0 million capital raised, approximately $3.7 million has been allocated to Abacus Group Holdings Limited and $51.3 million allocated to Abacus Trust.

During August 2005, the Group completed the acquisition of the initial portfolio of storage facility assets by the Abacus Storage Fund. To assist with the settlement of assets and to provide short term working capital, AGHL, through an associated entity, advanced approximately $40 million ahead of raising capital from external investors.

Other than as disclosed already in this report, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may effect, the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 28. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Remuneration of Non-Executive Directors

The remuneration policy for Non-Executive Directors seeks to appropriately remunerate them for their time, commitment and responsibilities.

Non-executive directors are paid a directors fee and do not receive any retirement benefits (other than superannuation which is inclusive in the directors fee) or performance related compensation. Where a Non-Executive director serves on the Group's Credit Committee, they receive remuneration for this service in addition to a directors fee. The aggregate pool available for payment of directors fees to Non-Executive Directors of the Group is an amount not to exceed $165,000 (inclusive of superannuation guarantee contributions). This amount was applicable at the time of listing in November 2002.

Given the current approved total Non Executive Directors fee pool has been in force since November 2002, the Directors intend to propose a change to the directors fee pool to incorporate a structure of a base fee together with fees for service on various Board committees. It is intended that security holders will be asked to approve an increase in directors' fees at the next Annual General Meeting of the Group.

### (b) Remuneration of Executive Directors and Senior Executives

**Executive Employment Contracts**

On 1 October 2002, the Group entered into a thirty three month executive employment contract with an Executive Director, F.M Wolf, and the Managing Director, D.J. Bastian. The agreement stipulates the starting base salary, allows for annual review and inflation adjustment and provides for short term incentive payments in addition to the executive's base salary at the discretion of the Board. The agreements expired on 30 June 2005 and new agreements are in the process of being negotiated.

There are no other executive service agreements.

**Executive pay**

The Board's policy on Executive pay is to ensure remuneration is reasonable, competitive, motivating and appropriate for the results delivered. The Remuneration and Nomination Committee takes external advice in its deliberations.

The current remuneration structure has two components, the combination of which comprises the Executive's total remuneration:

- base pay & benefits (fixed); and
- short term incentive (variable "at risk")

There is currently no long term incentive structure or program in place. The total remuneration package seeks to provide an appropriate mix of base salary with short term incentive.

**(i) Base Pay**

Executives are offered a base pay that comprises the fixed component of their total remuneration. Subject to meeting minimum Superannuation Guarantee obligations, Executives are able to nominate the mix between cash and superannuation contributions.

Base salary is set by reference to the Executives position, experience and performance. The Group aims to ensure base salaries are competitive in the market. Base salaries are reviewed annually having regard to individual and Group performance and external market conditions.

The base pay of Executive Directors and senior executives are reviewed and approved by the Remuneration & Nominations Committee.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**28. DIRECTOR AND EXECUTIVE DISCLOSURES continued**

**Executive pay continued**

**(ii) Short Term Incentives**

At the discretion of the Board, executives and senior managers may receive short term incentive payments based on reference to a variety of measures, both financial and non-financial. These measures primarily include Group profitability targets, returns to security holders and certain key performance indicators such as assets under management.

The Board considers that performance linked objectives that have an operational and financial impact focus are best suited to the outcomes desired by security holders. Non-financial measures are also taken into account.

The actual level of short term incentive payments awarded to each Executive at the end of each year is determined by reference to achievement of the targets and the extent to which executives were able to contribute to such achievement.

In awarding short term incentives for the 2006 financial year, the directors intend to make the performance indicators more specific to individuals and their contribution to the Group's results.

**(c) Details of Specified Directors and Specified Executives**

*(i) Specified Directors*

| | |
|---|---|
| Mr John Thame | Chairman |
| Dr Frank Wolf | Deputy Chairman (Executive) |
| Mr David Bastian | Managing Director |
| Mr Dennis Bluth | Director (non-executive) |
| Mr Phillip Green | Director (non-executive) |
| Mr Malcolm Irving | Director (non-executive) |
| Mr Len Lloyd | Executive Director (AGHL) |

*(ii) Specified Executives*

| | |
|---|---|
| J L'Estrange | General Manager – Property Finance |
| S O'Donoghue | Chief Financial Officer and Company Secretary |
| P Strain | General Manager – Leasing and Administration |
| K Kitchen | General Manager – Distribution |
| C Bibby | General Counsel |

**(d) Remuneration of Directors**

The remuneration of Directors for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| J Thame | 66,320 | - | 6,560 | 72,880 |
| D Bluth | 33,320 | - | 3,295 | 36,615 |
| P Green | 26,528 | - | 2,622 | 29,150 |
| M Irving | 29,150 | - | - | 29,150 |
| F Wolf | 551,250 | 400,000 | - | 951,250 |
| D Bastian | 484,540 | 250,000 | 11,585 | 746,125 |
| L Lloyd (1) | 169,500 | 60,000 | 51,000 | 280,500 |
| **Total** | **1,360,608** | **710,000** | **75,062** | **2,145,670** |

(1) L Lloyd is a director of Abacus Group Holdings Limited only.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 28. DIRECTOR AND EXECUTIVE DISCLOSURES continued

The remuneration of Directors for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| J Thame | 65,793 | - | 7,087 | 72,880 |
| D Bluth | 30,527 | - | 3,289 | 33,816 |
| P Green | 26,317 | - | 2,835 | 29,152 |
| M Irving | 29,152 | - | - | 29,152 |
| F Wolf | 525,000 | 350,000 | - | 875,000 |
| D Bastian | 461,428 | 250,000 | 11,002 | 722,500 |
| L Lloyd (1) | 150,000 | 20,000 | 60,000 | 230,000 |
| **Total** | **1,288,217** | **620,000** | **84,213** | **1,992,500** |

(1) L Lloyd is a director of Abacus Group Holdings Limited only.

### (e) Remuneration of Specified Executives

The remuneration of Specified Executives for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Superan-nuation | 2005 Total |
|---|---|---|---|---|
| J L'Estrange | 196,914 | 100,000 | 28,086 | 325,000 |
| S O'Donoghue (i) | 188,904 | 65,000 | 12,058 | 265,962 |
| K Kitchen | 194,414 | 56,000 | 11,586 | 262,000 |
| P Strain | 173,414 | 60,000 | 11,586 | 245,000 |
| C Bibby | 158,414 | 30,000 | 11,586 | 200,000 |

(i) Commenced employment in September 2004.

The remuneration of Specified Executives for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Superan-nuation | 2004 Total |
|---|---|---|---|---|
| J L'Estrange | 194,293 | 50,000 | 11,002 | 255,295 |
| R Hill | 193,748 | - | 11,002 | 204,750 |
| K Kitchen | 146,498 | 25,000 | 11,002 | 182,500 |
| P Strain | 153,435 | 20,000 | 11,002 | 184,437 |
| C Bibby | 146,498 | 15,000 | 11,002 | 172,500 |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**28. DIRECTOR AND EXECUTIVE DISCLOSURES continued**

**(f) Security holdings of Specified Directors and Specified Executives**

| Securities held in Abacus Property Group (number) | Balance 1 July 04 | Net Change Other | Balance 30 June 05 |
|---|---|---|---|
| **Specified Directors** | | | |
| J Thame | 35,000 | 8,000 | 43,000 |
| F Wolf | 6,806,046 | 12,000 | 6,818,046 |
| D Bastian | 7,040,000 | - | 7,040,000 |
| P Green | 9,366,930 | - | 9,366,930 |
| M Irving | 20,000 | 4,000 | 24,000 |
| **Specified Executives** | | | |
| P Strain | 10,000 | - | 10,000 |
| K Kitchen | 13,492 | - | 13,492 |
| C Bibby | 4,500 | 4,000 | 8,500 |
| **Total** | **23,295,968** | **28,000** | **23,323,968** |

All equity transactions with specified directors and specified executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

**Director transactions**

Directors of the consolidated entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances.

During the year ended 30 June 2005 directors received distributions from the controlled entity on their stapled securities in the Abacus Property Group and on their investment in various Trusts managed by Abacus Funds Management Limited (AFML) as Responsible Entity.

**Director-related entity transactions**

Abbott Tout was paid $0.57 million (2004: $0.38 million) for legal services relating to corporate issues, lease documentation and sales contracts. A partner in Abbott Tout, Mr Dennis Bluth, is a director of Abacus Funds Management Limited and Abacus Group Holdings Limited (AGHL).

During the year FSP Group Pty Limited was paid $0.2 million (2004: $0.3 million) for rental of office premises and for telephone and electricity charges. Dr Wolf, Mr Bastian and Mr. Green are directors of AFML, AGHL and FSP Group Pty Limited.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 29. RELATED PARTY DISCLOSURES

### Wholly-owned group transactions

Loans made by Abacus Trust to AGHL and its subsidiaries amounted to $180.0 million including interest repayable on or before 30 June 2008. Interest is currently charged at 10% per annum (2004: 14%).

In accordance with existing constitutions, management agreements and prospectuses, Abacus Funds Management Limited (Responsible Entity) and its subsidiary Abacus Property Services Pty Limited were paid performance, property and funds management fees during the year by other entities within the Group in the total amount of $2.1 million (2004: $1.3 million).

### Related party transactions

AFML received $0.4 million (2004: $0.8 million) in asset management fees and compliance cost recoveries from various trusts where AFML is the Responsible Entity. Abacus Property Services Pty Limited received $0.2 million (2004: $0.6 million) in property management fees and salary recoveries from the same trusts. During the year AFML received $0.9 million ($2004: $0.60 million) in management fees from joint ventures in which the Group had interests.

Abacus Funds Management Limited and its subsidiary Abacus Property Services Pty Limited were paid fees in relation to property acquisitions, project and property management, prospectus raising and other services during the year by Abacus Diversified Income Fund (ADIF) in the total amount of $4.8 million (2004: $2.2 million). AFML is the responsible entity of ADIF.

All other related party transactions are conducted on normal commercial terms and conditions.

### Custodian

The Custodian of the Trust is Perpetual Trustee Company Limited. The Custodian is entitled to a fee equal to 0.015% of the gross asset value of the Abacus Trust subject to a minimum fee of $20,000 p.a. The custodian was paid a fee of $0.08 million for the year ended 30 June 2005 (2004: $0.05 million).

| | Notes | COMBINED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| **30. AUDITORS' REMUNERATION** | | | |
| Amounts received or due and receivable by Ernst & Young Australia for: | | | |
| - an audit of the financial report of the entity and any other entity in the consolidated entity | | **179,319** | **107,400** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 31. SEGMENT INFORMATION

The consolidated entity operates within three business segments within the property industry, being property rental and sales, other property-based investments and funds management. The property rental and sales operations comprise the leasing and maintenance of commercial, retail and industrial properties and the conversion of commercial properties into commercial strata units intended for sale. The other property-based investments comprise mortgage lending and investment in joint venture activities and in securities of other listed and unlisted property trusts. Funds management comprise property and funds management and other consulting activities. Revenue is derived from property rentals, interest, fees and property sales.

| | Property Rental & Sales | | Other property-based investments | | Funds Management | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Segment revenue:** | | | | | | | | |
| Revenue from customers outside the Group | 36,541 | 96,166 | 25,269 | 20,972 | 9,125 | 5,036 | 70,935 | 122,174 |
| Interest revenue | | | | | | | 1,165 | 807 |
| Total aggregated revenue | | | | | | | **72,100** | **122,981** |
| **Segment results:** | | | | | | | | |
| Segment result | 22,904 | 20,446 | 17,897 | 17,817 | 7,425 | 4,007 | 48,226 | 42,270 |
| Interest income | | | | | | | 1,165 | 807 |
| Income tax | | | | | | | (356) | (193) |
| Borrowing costs | | | | | | | (9,251) | (8,159) |
| Group net profit | | | | | | | **39,784** | **34,725** |
| **Segment assets:** | | | | | | | | |
| Segment assets | 375,287 | 255,314 | 183,128 | 126,480 | 34,491 | 34,059 | 592,906 | 415,853 |
| Unallocated assets | | | | | | | 614 | 206 |
| | | | | | | | **593,520** | **416,059** |
| **Segment liabilities:** | | | | | | | | |
| Segment liabilities | 3,319 | 1,500 | 2 | 307 | 2,908 | 2,279 | 6,229 | 4,086 |
| Interest-bearing loans | | | | | | | 172,764 | 101,235 |
| Tax liabilities | | | | | | | 780 | (123) |
| Unallocated liabilities | | | | | | | 9,942 | 8,117 |
| | | | | | | | **189,715** | **113,315** |
| **Other segment information:** | | | | | | | | |
| Acquisition of controlled entities | - | - | 172 | - | - | - | 172 | - |
| Depreciation and amortisation | 200 | 174 | - | - | 1,849 | 1,840 | 2,049 | 2,014 |
| Non-cash expenses other than depreciation and amortisation | 151 | 82 | (1,012) | 367 | - | - | (861) | 449 |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 31. SEGMENT INFORMATION continued

**Segment accounting policies and segment location**

The segment accounting policies are the same as the Group's policies described in Note 1. During the financial period, there were no changes in segment accounting policies that had a material effect on the segment information. The Group operates wholly within Australia except for an investment of approximately $3 million in associated entities in the United Kingdom.

### 32. FINANCIAL INSTRUMENTS

**(a) Interest rate risk exposures**

The Group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

| Financial Instruments<br>**2005** | Floating interest rate<br>$'000 | Fixed interest rate maturing in:<br>=<1 year<br>$'000 | > 1 to 5 years<br>$'000 | >5 years<br>$'000 | Non-interest bearing<br>$'000 | Total Carrying Amount<br>$'000 | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 4,417 | - | - | - | - | 4,417 | 5.32% |
| Receivables | | 132 | - | - | 19,954 | 20,086 | 5.13% |
| Other assets | - | 98,309 | 71,180 | - | - | 169,489 | 13.03% |
| | 4,417 | 98,441 | 71,180 | - | 19,954 | 193,992 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 5,528 | 5,528 | - |
| Bank loans | 172,764 | - | - | - | - | 172,764 | 6.66% |
| Interest rate swaps | (162,850) | 21,000 | 31,850 | 110,000 | - | - | 7.04% |
| Distribution payable | - | - | - | - | 9,942 | 9,942 | - |
| | 9,914 | 21,000 | 31,850 | 110,000 | 15,470 | 188,234 | |

| **2004** | Floating interest rate<br>$'000 | Fixed interest rate maturing in:<br>=<1 year<br>$'000 | > 1 to 5 years<br>$'000 | >5 years<br>$'000 | Non-interest bearing<br>$'000 | Total Carrying Amount<br>$'000 | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 24,367 | - | - | - | - | 24,367 | 4.91% |
| Receivables | - | 132 | - | - | 28,257 | 28,389 | 5.15% |
| Other assets | - | 55,440 | 45,726 | - | - | 101,166 | 13.74% |
| | 24,367 | 55,572 | 45,726 | - | 28,257 | 153,922 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 3,396 | 3,396 | - |
| Bank loans | 101,235 | - | - | - | - | 101,235 | 6.41% |
| Interest rate swaps | (93,850) | - | 93,850 | - | - | - | 7.35% |
| Distribution payable | - | - | - | - | 8,117 | 8,117 | - |
| | 7,385 | - | 93,850 | - | 11,513 | 112,748 | |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**32. FINANCIAL INSTRUMENTS continued**

**(b) Credit risk exposures**

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract.

The combined entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

**(c) Net fair value of financial assets and liabilities**

**Recognised financial instruments**

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short term to maturity.

*Trade receivables and trade creditors:* The carrying amount approximates fair value.

*Short-term borrowings:* The carrying amount approximates fair value because of their short term to maturity.

*Long-term bank borrowings and debentures:* The fair values of long-term borrowings are estimated by discounting expected cash flows at the interest rates currently offered to the Group for debt of the same remaining maturity and security plus costs expected to be incurred were the liability settled.

*Non-current investments/securities:* A reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

All other financial assets and liabilities have been recognised at the balance date at their net fair values, except for the following:

| | **Total carrying amount as per the statement of financial position** | | **Combined net fair value** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Financial liabilities*** | | | | |
| Bank loans | 172,764 | 101,235 | 172,738 | 101,138 |
| Interest rate swaps | n/a | n/a | 4,869 | 1,975 |

**Notes**

N/A Not applicable since financial instruments are not recognised in the financial statements.

**Unrecognised financial instruments**

*Interest rate swap agreements:* The net fair value of interest rate swap contracts is determined as the difference in present value of the future interest cash flows.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 33. LEASES

All the properties owned by the combined entity are leased to third parties under operating leases at 30 June 2005. Lease terms vary between tenants.

| | COMBINED | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| Future minimum rental revenues under non-cancellable operating leases at 30 June 2005 are as follows: | | |
| - not later than one year | 30,754 | 11,270 |
| - later than one year and not later than five years | 70,132 | 27,622 |
| - later than five years | 16,302 | 10,573 |
| Total | **117,188** | **49,465** |

## 34. COMMITMENTS AND CONTINGENCIES

In addition to the commitments set out in Note 24, the Group has provided guarantees to outside parties, including banks as additional security for Group and related entity bank loans, for an aggregate amount of $60.6 million.

## 35. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS)

Abacus Property Group has identified key areas impacted by AIFRS and is currently in the final stages of quantifying those impacts.

The opening AIFRS balance sheet as at 1 July 2004 has been completed and will form the basis of accounting under AIFRS in the future and is required for the preparation of Abacus Property Group's first fully compliant financial statements for the half year ending 31 December 2005.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS including the estimated financial impacts to total equity as at transition date and 30 June 2005 and on net profit for the year ended 30 June 2005. The actual effects of transition to International Financial Reporting Standards (IFRS) may differ from these estimates when implementation is finalised due to (a) ongoing work being undertaken on AIFRS; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted industry practice in the interpretation and application of AIFRS and UIG Interpretations.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**35. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued**

**(a) Reconciliation of equity as presented under AGAAP to that under AIFRS**

| | | COMBINED | |
|---|---|---|---|
| | | **30-Jun-05** | 1-Jul-04 |
| | **Notes** | **$'000** | $'000 |
| **Total equity under AGAAP** | | 403,805 | **302,744** |
| **Adjustment to retained earnings (net of tax)** | | | |
| Write-back of goodwill amortisation | (i) | 1,775 | - |
| Transfer of asset revaluation reserve to retained earnings | (ii) | (38,110) | (26,398) |
| Transfer of asset revaluation reserve to retained earnings | (ii) | 38,110 | 26,398 |
| Amortisation of lease incentives | (iii) | 480 | 413 |
| Reversal of profits on sales settled after 30 June | (iv) | (1,600) | (2,993) |
| Adjustment to income tax expense | (v) | 133 | 807 |
| **Total equity under AIFRS** | | 404,593 | **300,971** |

(i) Under AASB 3 *Business Combinations* goodwill would not be amortised but would be subject to annual (or more frequent) impairment testing under AASB 136 *Impairment of Assets*. Currently, the Group amortises goodwill over its useful life estimated at 20 years. The Group has elected not to apply the Standard retrospectively in accordance with the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and hence the goodwill amortised in prior years would not be written back as at the date of transition. UIG 1013 likewise prohibits the election to apply the Standard retrospectively for listed entities whose securities are stapled.

(ii) Under AASB 140 *Investment Property,* if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The Group intends to value its investment properties at fair value adhering to the standard.

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(iii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The Group currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

(iv) Under AASB 118 *Revenue* the revenue recognition criteria in the sale of goods include requirements that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and that the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Sale of investment properties is currently recognised as income on exchange of unconditional contract of sale. AASB 118 would effectively delay recognition of revenue to settlement date.

(v) Under AASB 112 *Income Taxes,* income tax would be calculated using the balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying amount of an asset or a liability and its tax base. This results in the recognition of a deferred tax liability in relation to the company's revalued assets. The Trust will continue to not recognise tax assets and tax liabilities as it is will not be liable for tax if all taxable income is distributed to security holders.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**35. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued**

**(a) Reconciliation of equity as presented under AGAAP to that under AIFRS continued**

The above changes will result in a decrease in deferred tax liability as follows:

| | COMBINED | |
|---|---|---|
| | Jun-05 | 1-Jul-04 |
| | $'000 | $'000 |
| Retained earnings (i-v) | (133) | 807 |
| Reserves | - | - |
| Increase/(decrease) in tax deferred liability | (133) | 807 |

**(b) Reconciliation of net profit under AGAAP to that under AIFRS**

| | | COMBINED |
|---|---|---|
| | | 30-Jun-05 |
| | Notes | $'000 |
| **Net profit reported under AGAAP** | | **39,784** |
| Write-back of goodwill amortisation | (i) | 1,775 |
| Amortisation of leasing incentives | (ii) | 480 |
| Reversal of profits on sales settled after year end | (iii) | (1,600) |
| Revaluation of investment properties | (iv) | 12,059 |
| Adjustment to income tax expense | (v) | 133 |
| **Net profit under AIFRS** | | **52,631** |

(i) Under AASB 3 *Business Combinations* goodwill would not be amortised but would be subject to annual (or more frequent) impairment testing under AASB 136 *Impairment of Assets*. Currently, the Group amortises goodwill over its useful life estimated at 20 years. The Group has elected not to apply the Standard retrospectively in accordance with the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and hence only the goodwill amortised during the current year would be written back. UIG 1013 likewise prohibits the election to apply the Standard retrospectively for listed entities whose securities are stapled.

(ii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The Group currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

(iii) Under AASB 118 *Revenue* the revenue recognition criteria in the sale of goods include requirements that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and that the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Sale of investment properties is currently recognised as income on exchange of unconditional contract of sale. Profits derived from sales settled after 30 June 2005 would have to be adjusted and recognised on settlement to occur in the following year.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**35. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued**

**(b) Reconciliation of net profit under AGAAP to that under AIFRS continued**

(iv) Under AASB 140 *Investment Property,* if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The Group intends to value its investment properties at fair value adhering to the standard.

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(v) Under AASB 112 *Income Taxes,* income tax would be calculated using the balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying amount of an asset or a liability and its tax base. This results in the recognition of a deferred tax liability in relation to the company's revalued assets. The Trust will continue to not recognise tax assets and tax liabilities as it is will not be liable for tax if all taxable income is distributed to security holders.

**(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005**

No material impacts to the cash flows have been identified on transition to AIFRS.

**(d) Impact of Other Standards**

(i) Under AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement,* financial assets will be classified as either held for trading, held-to-maturity, available for sale or loans and receivables. Depending on the classification, assets will be measured at fair value or amortised cost. Loans and receivables originated by the entity and not held for trading would be accounted for at amortised cost using the effective interest method.

The Group also has derivative instruments in the form of interest rate swaps which under the new Standards would have to be taken up in the balance sheet at fair value. At 30 June 2005 the Group's interest rate swap agreements with the banks were valued at $4.9 million. This would decrease retained earnings by that amount at 1 July 2005.

Under AASB 132 "Financial Instruments: Disclosures and Presentation" contractual obligations are regarded as liabilities if a trust's unitholders have the ability to redeem units from the scheme. In the absence of changes to constitution, all Trust unitholders' funds will be recognised as liabilities of the Trust rather than as equity. The result of this would be to reduce net assets of the Trust to zero. As distributions paid and payable make up a proportion of unitholders' fund, they would be classified as interest expense in the Statement of Financial Performance.

Units in trusts with fixed lives may be classified as debts instead of equity under IFRS. To ensure the Trust is able to continue to classify the units as equity, any necessary amendments to the Trust's constitution will be made. On 6 June 2005, ASIC issued Class Order 05/566 giving relief to facilitate changes to constitutions of listed and unlisted registered schemes that are not subject to mandatory redemption requirement to remove their limited lives without requiring a special resolution of members. The Responsible Entity is now completing the changes to the Trust's constitution and the members will be notified accordingly.

The Group decided to apply the exemption provided in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* as amended by AASB 2005-4 which permits entities not to apply the requirements of AASB 132 F*inancial Instruments: Presentation and Disclosures* and AASB 139 F*inancial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**35. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued**

**(d) Impact of Other Standards continued**

(ii) Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The Group's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows. The Group's assets including goodwill were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. This resulted in no impairment losses during the year.

(iii) Under UIG Interpretation 1013 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* at the date of transition, one of the combining entities shall be identified as the parent for the purpose of preparing consolidated financial reports by combining the financial reports of the entities whose securities are stapled. The combined balance sheet shall present the combined equity of the stapled securities as equity without identifying any minority interests. AASB 127 *Consolidated and Separate Financial Statements* will be applied subsequently in preparing the Group's financial reports.

The Group has identified Abacus Group Holdings Limited as the parent entity and the consolidated financial reports beginning from half year ending 31 December 2005 will be under the Company's name. Abacus Trust being a managed investment scheme will continue to prepare its own financial reports.

(iv) The financial impact of AIFRS is not expected to affect the distribution policy of the Group. It has been the policy of the Group to align distribution to earned income as closely as possible so that in future, in determining distributable income any material non-cash income or expense items will be excluded in the calculation of distributable profits. The Group will specifically account for non-cash income or expense items arising from straight-lining of fixed rental increases, amortisation of lease incentives, revaluation movements, mark to market valuation of its derivatives and the effects of any other amortisation of assets.

A reconciliation of net profit after tax to distributable profits will be a requirement prior to providing for or declaring any distribution. In similar manner, retained earnings will be examined and for internal purposes may have to be categorised to ensure that distributions are paid from distributable profits.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Abacus Funds Management Limited, Responsible Entity of Abacus Trust, and the directors of Abacus Group Holdings Limited, we state that:

(1) in the opinion of the directors:

   (a) the financial statements and notes of the Group are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

(2) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2005.

On behalf of the Board

| | |
|---|---|
| John Thame | David Bastian |
| Chairman | Managing Director |

Sydney, 13 September 2005

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

## Auditor's Independence Declaration to the Directors of Abacus Property Group

In relation to our audit of the financial report of Abacus Property Group for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark O'Sullivan
Partner
Sydney
15 September 2005

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

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Sydney NSW 2001

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DX Sydney Stock
Exchange 10172

**Independent audit report to stapled security-holders of Abacus Property Group**

**Scope**

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Abacus Property Group, consisting of the aggregated financial statements of Abacus Group Holdings Limited and Abacus Trust and the entities they controlled as at 30 June 2005 or during the year ended on that date ('the aggregated entity').

The directors of Abacus Group Holdings Limited and Abacus Funds Management Limited, the Responsible Entity of the Trust are responsible for preparing a financial report and the additional disclosures that gives a true and fair view of the financial position and performance of the aggregated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on them to the stapled security-holders of the aggregated entity. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report present fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the aggregated entities financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the aggregated entity.

ERNST & YOUNG

**Independence**
We are independent of the aggregated entity, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the aggregated entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

**Audit opinion**
In our opinion, the financial report of Abacus Property Group is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of Abacus Group Property at 30 June 2005 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney
13 September 2005

# Corporate Governance Report

Abacus Property Group is made up of the Abacus Trust and Abacus Group Holdings Limited. The responsible entity of the Abacus Trust is Abacus Funds Management Limited, which is a subsidiary of Abacus Group Holdings Limited. Corporate governance of the Group is the responsibility of the boards of Abacus Group Holdings Limited and Abacus Funds Management Limited.

Relevant information is available through a dedicated corporate governance information section on the Group's website at www.abacusproperty.com.au under 'About Abacus'.

### Principle 1: Solid foundations for management and oversight

The board has adopted a formal charter detailing its functions and responsibilities. Primary responsibilities are the provision of strategic guidance for the Group and the effective oversight of management. Particular functions include:

- Provide the overall corporate and business strategic direction of the Group
- Determine key policies and procedures governing the operations of the Group
- Review the annual progress and performance of the Group
- Approve the annual budget
- Approve all acquisitions, disposals and expenditures in excess of delegated limits
- Approve offer documents following due diligence process
- Oversee risk management issues
- Appoint and approve the terms and conditions of the employment of senior officers.

A copy of the board's charter has been posted to the Abacus Property Group website.

### Principle 2: Board structure

| **Name** | | | | **Appointment date** | |
|---|---|---|---|---|---|
| | | | | AFML | AGHL |
| John Thame | chairman | non-executive | independent | 11/09/02 | 11/09/02 |
| Dennis Bluth | | non-executive | | 26/09/96 | 09/09/02 |
| Phil Green | | non-executive | | 25/05/00 | 12/09/02 |
| Malcolm Irving | | non-executive | independent | 12/09/02 | 12/09/02 |
| Frank Wolf | deputy chairman | executive | | 13/12/90 | 04/12/97 |
| David Bastian | managing director | executive | | 02/05/95 | 04/12/97 |
| Len Lloyd | | executive | | - | 29/05/02 |

Mr Lloyd is a director of Abacus Group Holdings Limited only.

Details of the experience of each director are set out earlier in this Annual Report.

An independent director is one who is not:

- a current executive or a previous executive;
- a nominee of a major shareholder;
- involved in material contractual relationships with the Group; or
- an adviser to the Group for fees or some other benefit.

Abacus acknowledges the importance of having independent directors as determined by objective criteria. However, given the nature of the Group's business and current stage of the Group's development, the current structure of the board provides the necessary skills and experience to ensure it has a proper understanding of, and competence to deal with, the current and emerging issues of the business to optimise the financial performance of Abacus and returns to security-holders.

Directors may seek independent legal advice on any matter connected with the performance of their duties. In such cases, the Group will reimburse the reasonable costs of such advice.

The Group's nomination and remuneration committee is responsible to ensure the board maintains an appropriate size and composition to effectively discharge its responsibilities and duties. Membership of the committee comprises three external directors:

| | |
|---|---|
| John Thame (chairman) | independent |
| Malcolm Irving | independent |
| Dennis Bluth | |

There were four meetings of the nomination and remuneration committee with all members attending.

A copy of the charter of the nomination and remuneration committee has been posted to the Abacus Property Group website. The procedure for the selection and appointment of new directors to the board is contained in the board charter, also posted to the website.

**Principle 3: Ethical and responsible decision-making**

The Group's commitment to ethical practices and internal standards for professional conduct is set out in a formal code of conduct. The code stipulates requirements relating to client service, confidentiality of information, company assets, disclosure of potential conflicts of interest and compliance with laws and regulations, specifically including 'insider trading' provisions.

New employees are made aware of the code of conduct as part of their initial compliance induction. All employees sign an annual declaration that they have complied with the code.

The board has a policy limiting trading in Abacus Property Group securities by directors to the six-week period commencing two business days after half-year and full-year results are announced. Exceptions are limited to participation in a distribution reinvestment plan or a security purchase plan that may be offered from time to time.

A copy of the code of conduct and the trading policy have been posted to the Abacus Property Group website.

**Principle 4: Integrity in financial reporting**

To safeguard the integrity of its financial reporting, the Group has put in place a structure of review and authorisation of the presentation of the Group's financial position. This structure includes the review and consideration of the accounts by the audit committee following the provision of a written statement by the Managing Director and the Chief Financial officer that the financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The audit committee comprises 3 external directors, two of whom are independent:

| | |
|---|---|
| Malcolm Irving (chairman) | independent |
| John Thame | independent |
| Dennis Bluth | |

The audit committee met 5 times during the year, with all members attending.

The primary function of the audit committee is to ensure that an effective framework exists through the establishment and maintenance of adequate internal controls to safeguard the Group's assets and to ensure the integrity and reliability of financial and management reporting systems. The committee meets with external auditors and reviews the adequacy, scope and quality of the annual statutory audit and half-yearly statutory audit review.

Procedures for the selection and appointment of the external auditor are currently being developed. The current auditor of the Group has a policy of rotation of audit engagement partners which conforms with the Corporations Act.

The charter of the audit committee has been posted to the Abacus Property Group website.

**Principle 5: Disclosure**

The Group is committed to the continuous disclosure of material information concerning the Group's operations to the market and during the year it established a policy and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements. Primary responsibility for ensuring that the Group complies with its disclosure obligations is held by the Managing Director.

The Group's disclosure policy has been posted to the Abacus Property Group website.

**Principle 6: Communication with security-holders**

The Abacus Property Group website at www.abacusproperty.com.au provides general information on the Group's operations. All announcements made to the market are posted to the website after they have been lodged with the ASX, including financial statements, notices of meetings and briefings to analysts or media, in order to promote the broad distribution of this information to investors.

In addition, the Group publishes a newsletter from time to time which updates investors and their advisers on the current activities of the Group and alerts them to any forthcoming opportunities.

The external auditor attends the annual general meetings of the Group and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Group's shareholder communication policy has been posted to the Abacus Property Group website.

**Principle 7: Risk management**

Abacus Property Group has in place a number of processes intended to identify and manage areas of significant business risk. These include:

- a comprehensive risk management business plan
- maintenance of board and other committees relevant to the business of the Group
- detailed and regular budgetary, financial and management reporting
- audits (including financial and compliance audits)
- compliance procedures, manuals and policies
- comprehensive insurance programs;
- retention of specialised staff and external advisers.

The Managing Director and Chief Financial Officer have provided a written statement to the board that their statement on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and that this system is operating efficiently and effectively in all material respects.

*Compliance*

The Group's high quality compliance regime is managed by a professional compliance manager and overseen by an independent compliance committee. The primary role of this committee is to ensure that management follows written processes developed to ensure compliance with the Corporations Act, trust constitutions and other relevant parameters and that those processes are adequate for ongoing compliance with the law and to protect the interests of security-holders. It reports to the board semi-annually or as required.

The compliance committee includes two external members (who are not directors of the board):

| | |
|---|---|
| Phillip Leslie (chairman) | External Member |
| James Beecher | External Member |
| David Bastian | |

This committee met 4 times during the year.

In addition to the work of the compliance manager and compliance committee, the Group's compliance program is audited annually by an external auditor, currently Ernst & Young.

*Review of lending proposals*

New secured lending proposals which may be taken up by the Abacus Mortgage Fund or by a trust under Abacus management are evaluated by the credit committee against key investment criteria as part of a rigorous due diligence process. The committee reviews the feasibility analysis of the project and independent valuations of the property and proposed improvements, and assesses other relevant factors such as the experience and financial capacity of the borrower, project risk, local planning policies and market trends.

The credit committee includes two external members (who are not directors):

| | |
|---|---|
| Dennis Bluth (chairman) | |
| Frank Wolf | |
| David Bastian | |
| David Brodie | External member |
| Graham Broome | External member |

This committee met 31 times during the year.

*Due Diligence*

Abacus has a standing due diligence committee to manage the due diligence process of each transaction that involves the issue of a disclosure document. The due diligence committee comprises at least 3 members, currently:

Dennis Bluth (chairman)
Frank Wolf
David Bastian

Additional members, such as other board members, representatives of external advisers or independent experts, may be appointed for particular projects. During the year under review, there were 8 due diligence committee meetings, with all members attending all meetings.

The objectives of the due diligence committee are:

- to take all reasonable steps to ensure compliance with the law, particularly the Corporations Act and, to the extent relevant, the Trade Practices Act, applicable State Fair Trading Acts and taxation and stamp duty legislation;

- to obtain and verify information to be included in the disclosure document; and

- to overview the comprehensive due diligence system implemented in connection with the preparation of the disclosure document.

The Group's business risk management policy and procedures has been posted to the Abacus Property Group website.

**Principle 8: Board and management effectiveness**

The Group is committed to ensuring that directors and key executives are equipped with the knowledge and information they need to discharge their responsibilities effectively.

Management supplies the board with information in a form, timeframe and quality to enable it to make informed decisions. Directors are entitled to request additional information and have open access to the company secretary and senior staff. Directors are also able to seek independent professional advice, if necessary, at the Group's expense.

Performance evaluation guidelines for the board and individual directors are annexed to the board charter, which has been posted to the Abacus Property Group website.

**Principle 9: Remuneration**

The aim of the Abacus Property Group's remuneration policy is to attract and retain talented and motivated directors and employees so as to encourage enhanced performance of the Group. The policy is overseen by the nomination and remuneration committee which comprises three non-executive directors:

Malcolm Irving (chairman)
John Thame
Dennis Bluth

A copy of the charter of the nomination and remuneration committee has been posted to the Abacus Property Group website.

The remuneration of each director and the five most senior officers is set out earlier in this Annual Report. Non-executive directors are paid fees for their service and do not participate in other benefits which may be offered other than those which are statutory requirements.

Abacus Property Group does not provide incentives as a percentage of base pay to any director or member of staff, nor is any equity provided. Salary increases and bonus payments are determined by the nomination and remuneration committee on an annual basis.

**Principle 10: Recognise the legitimate interests of stakeholders**

The Abacus Property Group is committed to meeting its obligations to non-shareholder stakeholders such as employees, clients, suppliers and the community as a whole. The code of conduct discussed under Principle 3 sets standards of honesty, integrity and ethical conduct to guide the personal behaviour of staff.

A copy of the code of conduct has been posted to the Abacus Property Group website.

# ASX Additional Information

Abacus Property Group is made up of the Abacus Trust and Abacus Group Holdings Limited. The responsible entity of the Abacus Trust is Abacus Funds Management Limited. The following information is current as at 23 August 2005.

| | |
|---|---|
| Number of holders of ordinary fully paid stapled securities | 6,275 |
| Voting rights attached to ordinary fully paid stapled securities | one vote per stapled security |
| Number of holders holding less than a marketable parcel of ordinary fully paid stapled securities | 8 |
| Secretary, Abacus Funds Management Limited<br>Secretary, Abacus Group Holdings Limited | Sean O'Donoghue |
| Registered office<br>Abacus Funds Management Limited<br>Abacus Group Holdings Limited | Level 34, Australia Square<br>264-278 George Street<br>Sydney NSW 2000<br>(02) 9253 8600 |
| Registry | Computershare Investor Services Pty Ltd<br>GPO Box 7045<br>Sydney NSW 1115<br>1300 855 080 |
| Other stock exchanges on which Abacus Property Group securities are quoted | none |
| Number and class of restricted securities or securities subject to voluntary escrow that are on issue | none |
| There is no current on-market buy-back | |

## Substantial Security-holder Notifications

| Security-holders | Number of Securities |
|---|---|
| UBS Nominees Pty Ltd | 29,921,651 |
| Deutsche Bank Group | 17,387,296 |

## Securities Register

| Number of Securities | Number of Security-holders |
|---|---|
| 1-1000 | 46 |
| 1001-5000 | 387 |
| 5001-10000 | 928 |
| 10001-100000 | 4,729 |
| 100001 – over | 185 |

## Top 20 Largest Security-holdings

| Security-holders | | Number of Securities | % of issued Securities |
|---|---|---|---|
| 1 | Australian Executor Trustees Limited | 45,528,204 | 11.81 |
| 2 | National Nominees Limited | 40,994,664 | 10.63 |
| 3 | ANZ Nominees Limited <Cash Income A/C> | 30,548,146 | 7.92 |
| 4 | Westpac Custodian Nominees Limited | 20,605,426 | 5.35 |
| 5 | RBC Global Services Australia Nominees Pty Ltd <BKCUST A/C> | 13,336,940 | 3.46 |
| 6 | J P Morgan Nominees Australia Limited | 13,014,199 | 3.38 |
| 7 | RBC Global Services Australia Nominees Pty Ltd <MLCI A/C> | 7,131,619 | 1.85 |
| 8 | Avanteos Investments Limited <FSP Super Fund A/C> | 4,724,077 | 1.23 |
| 9 | Assetinsure Pty Ltd | 4,683,465 | 1.21 |
| 10 | Craig Securities (No. 2) Pty Limited | 3,300,000 | 0.86 |
| 11 | Kendall Securities (No. 2) Pty Limited | 3,300,000 | 0.86 |
| 12 | Pluteus (No. 164) Pty Limited | 2,730,646 | 0.71 |
| 13 | Cogent Nominees Pty Limited | 2,300,724 | 0.60 |
| 14 | F M Wolf Pty Limited | 2,200,600 | 0.57 |
| 15 | Citicorp Nominees Pty Limited | 1,994,524 | 0.52 |
| 16 | Castlecrag Investments (No. 2) Pty Limited | 1,886,800 | 0.49 |
| 17 | Citicorp Nominees Pty Limited <CFSIL Cwlth Property 6 A/C> | 1,767,490 | 0.46 |
| 18 | MLEQ Nominees Pty Limited <Unpaid1 A/C> | 1,700,000 | 0.44 |
| 19 | Avanteos Investments Limited <Avanteos Super Fund No 2 A/C> | 1,593,276 | 0.41 |
| 20 | RBC Global Services Australia Nominees Pty Ltd <GSJBW A/C> | 1,408,669 | 0.37 |

# ANNUAL FINANCIAL REPORT
**30 June 2005**

**Directory**

**Responsible Entity:**
Abacus Funds Management Limited
ABN 66 007 415 590
Level 34, Australia Square
264-278 George Street
SYDNEY NSW 2000
Tel: (02) 9253 8600
Fax: (02) 9253 8616
Website: www.abacusproperty.com.au

**Directors of Responsible Entity:**
John Thame, Chairman
Frank Wolf, Deputy Chairman (executive)
David Bastian, Managing Director
Dennis Bluth
Phillip Green
Malcolm Irving

**Company Secretary:**
Sean O'Donoghue

**Auditor:**
Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

**Custodian:**
Perpetual Trustee Company Limited
Level 8, 9 Castlereagh Street
SYDNEY NSW 2000

**Compliance Plan Auditor**
Ernst & Young
Ernst & Young Centre
680 George Street
SYDNEY NSW 2000

**Share Registry**
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
SYDNEY NSW 2000
Tel: (02) 1800 635 323 Toll free
Fax: (02) 8234 5050

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It is recommended that this Annual Financial Report should be read in conjunction with the Annual Financial Reports of Abacus Property Group and Abacus Group Holdings Limited as at 30 June 2005. It is also recommended that the report be considered together with any public pronouncements made by the Abacus Property Group in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

# DIRECTORS' REPORT

**30 June 2005**

The Directors of Abacus Funds Management Limited (Abacus), Responsible Entity of the Abacus Trust, (AT or the "Trust") submit their report for the Trust for the year ended 30 June 2005.

## DIRECTORS

The Directors of Abacus Funds Management Limited, the Responsible Entity of the Abacus Trust in office at all times during the financial year and until the date of this report are set out below:

| | |
|---|---|
| John Thame | Chairman (Non-executive) |
| Frank Wolf | Deputy Chairman (Executive) |
| David Bastian | Managing Director |
| Dennis Bluth | Non-executive Director |
| Phillip Green | Non-executive Director |
| Malcolm Irving | Non-executive Director |

## PRINCIPAL ACTIVITIES

The principal activities of the Trust during the course of the financial year was investment in commercial, retail and industrial properties and mortgage lending.

## TRUST INFORMATION

Abacus Trust is an Australian registered scheme. Abacus Funds Management Limited, the Responsible Entity of Abacus Trust, is incorporated and domiciled in Australia. Abacus Funds Management Limited is a wholly owned subsidiary of Abacus Group Holdings Limited.

The registered office and principal place of business of Abacus Trust and Abacus Funds Management Limited is located at Level 34 Australia Square, 264-278 George Street, Sydney NSW 2000.

At balance date Abacus Trust had nil employees (2004: nil).

## OPERATING PROFIT

Abacus Trust earned a net profit attributable to unitholders of $37.3 million for the year ended 30 June 2005 (30 June 2004: $35.4 million). This represents an increase of 5.4% over the previous financial year.

## EARNINGS PER UNIT

| | Year ended 30 June 2005 cents | Year ended 30 June 2004 cents |
|---|---|---|
| Basic earnings per unit | 11.63 | 13.08 |

Earnings per unit were affected by the time lag between raising additional capital during the year and the effective investment of that capital.

# DIRECTORS' REPORT
**30 June 2005**

## DISTRIBUTIONS

Abacus Trust paid cash distribution to unitholders of $35.1 million (11.5 cents per unit) during the year ended 30 June 2005 (2004: $29.3 million; 10.85 cents per unit). In addition, a distribution of $9.9 million (2.9 cents per unit) was declared and provided for in respect of the quarter ended 30 June 2005. The Abacus Trust funded all distributions to stapled security holders for the year ended 30 June 2005.

The full year distribution of 11.40 cents per stapled security reflects a 3.4% increase after the deduction of the extraordinary distribution of 0.2 cents due to the need to distribute all the taxable income of the Trust for the year ended 30 June 2004.

Distributions in respect of the year ended 30 June 2005 were paid to unitholders as follows:

| | Cents | $'000 |
|---|---|---|
| Interim distribution paid 10 November 2004 | 2.80 | 8,328 |
| Interim distribution paid 10 February 2005 | 2.80 | 8,727 |
| Interim distribution paid 12 May 2005 | 2.90 | 9,942 |
| Final distribution paid 10 August 2005 | 2.90 | 9,942 |
| **Total** | **11.40** | **36,939** |

## REVIEW OF OPERATIONS

### Overview

Abacus Trust (AT) and Abacus Group Holdings Limited (AGHL) together make up the listed entity Abacus Property Group (APG or the 'Group'). Units in AT and shares in AGHL have been stapled together so that neither can be dealt with without the other. An APG security consists of one unit in AT and one share in AGHL. A transfer, issue or reorganisation of a unit in AT is accompanied by a transfer, issue or reorganisation of a share in AGHL.

AT holds an investment portfolio of commercial, retail and industrial properties and mortgage loan investments.

### Operating results

During the financial period under review, the Trust achieved strong asset growth in all its key business activities with total assets increasing $180.2 million to $560.4 million at 30 June 2005.

- The Group acquired three additional properties for an aggregate $124.3 million, including
  - Liverpool Plaza Shopping Centre in Sydney's west;
  - A 50% interest in Santos House, a commercial tower in Adelaide;
  - A commercial building at 50 Miller Street, North Sydney; and

  These acquisitions brought the value of the Trust's total investment property portfolio to almost $318 million at 30 June 2005.
- The revaluation of seven existing properties in the portfolio resulted in a net increase of $12.9 million in the carrying value of investment properties.
- The Abacus Mortgage Fund increased the size of its mortgage book (including accrued interest) by $11.8 million to $56.5 million at 30 June 2005 compared to $44.7 million at 30 June 2004. The Funds has an average loan balance of approximately $2 million and average term of approximately 18-24 months. Loans are provided to both property developers and investors.

# DIRECTORS' REPORT

**30 June 2005**

**REVIEW OF OPERATIONS continued**

**Operating results continued**

The Abacus Trust advanced significant funds to Abacus Group Holdings Limited to support the growth of its funds and property management activities, where assets under management (combining assets owned by the Abacus Property Group and assets managed by the Group on behalf of external investors) have grown to approximately $950 million.

The Abacus Trust provided loan funds to settle acquisitions and provide working capital in respect of three new managed investment schemes established at the end of the financial year. As at 30 June 2005, the Abacus Trust had advanced approximately $39 million to associated Group entities in respect of these schemes.

**Financial Condition**

During the financial year, the contributed equity of the Trust increased $80.1 million to $339.8 million. Capital raisings were made through institutional placements in August 2004 (27.00 million securities at $1.18) and December 2004 (31.16 million securities at $1.26) and a Security Purchase Plan for existing shareholders was completed in October 2004 (14.25 million securities at $1.18). This additional capital was directed towards acquisition of property assets or for growth of the Group's fund management business (particularly the Abacus Diversified Income Fund and a number of new managed investment schemes).

Total equity increased $93.4 million to $380.6 million at 30 June 2005 compared to $287.2 million at 30 June 2004. Net tangible assets per security increased 4.7% to $1.11 at 30 June 2005 compared to $1.06 at 30 June 2004.

As at 30 June 2005, existing loan facilities totalled approximately $183.8 million, of which $167.8 million was drawn. The Trust manages interest rate exposure on debt facilities through the use of interest rate swap contracts. At year end, approximately $151.8 million or 90.4% of interest commitments on drawn facilities were fixed at an average interest rate of 7.07% and an average term to maturity of 7.2 years.

As noted above, at 30 June 2005, $39 million had been advanced to new schemes where Abacus is responsible entity. The Trust's net debt gearing ratio (calculated as total interest bearing liabilities less cash assets divided by total assets) was 29.7% at 30 June 2005 (15.9% at 30 June 2004). The Group's gearing ratio will decrease as capital is raised for our new managed investment products and as a result of capital raised on 10 August 2005 from an institutional placement of $55 million.

**UNITS ON ISSUE**

342,836,000 units in Abacus Trust were on issue at 30 June 2005 (2004: 270,420,000). Units on issue increased 72,416,000 (27%) during the year ended 30 June 2005.

**FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATES**

The Abacus Trust paid a management fee out of scheme property to the Responsible Entity of $1.16 million (2004: $1.0 million) for the year ended 30 June 2005. In addition, Abacus Trust paid property management fees to an associate of the Responsible Entity, Abacus Property Services Pty Limited of $0.37 million (2004: $0.33 million) for the year ended 30 June 2005.

# DIRECTORS' REPORT

**30 June 2005**

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Trust occurred during the financial year:

- Total equity increased by $93.4 million to $380.6 million at 30 June 2005 compared to $287.2 million at 30 June 2004.
- Acquisition of three additional properties for an aggregate $124.3 million, including Liverpool Plaza Shopping Centre in Sydney West in August 2004, a 50% interest in commercial tower Santos House at Adelaide in October 2004 and a commercial building at 50 Miller Street North Sydney in December 2004.
- Revaluations of properties during the year resulted in a net increase of $12.9 million.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

On 10 August 2005, the Group completed a capital raising of $55.0 million and issued approximately 42.6 million securities at $1.29 per security. Of the total $55.0 million capital raised, an amount of approximately $49.6 million, net of capital raising fees of $1.65 million, allocated to Abacus Trust.

During August 2005, Abacus Trust exchanged contracts to acquire two additional properties (adjacent to the Group's Liverpool Plaza Shopping Centre) for an aggregate purchase price of $7.3 million.

Other than as disclosed already in this report and to the knowledge of directors, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may affect, the Trust's operations in future financial years, the results of those operations or its state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors have excluded from this report any other information on the likely developments in the operations of the Trust and the expected results of those operations in future financial years, as the Directors believe that it would be likely to result in unreasonable prejudice to the operation of the Trust.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Trust's environmental responsibilities, such as waste removal and water treatment, have been managed in compliance with all applicable regulations and licence requirements and in accordance with best industry standards. No breaches of requirements or additional environmental issues have been discovered nor brought to the board's attention. There has been no known significant breaches of any environmental requirements applicable to the Trust.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Responsible Entity, Abacus Funds Management Limited, has paid an insurance premium in respect of a contract insuring its directors and full time executive officer and secretary. The terms of this policy prohibit disclosure of the nature of the risks insured or the premium paid.

## UNITHOLDERS' REGISTER

The register of unitholders, during the year ended 30 June 2005, has been drawn up and maintained so as to give a true account of the unitholders of the Trust.

# DIRECTORS' REPORT

**30 June 2005**

## OTHER DISCLOSURES

Disclosures regarding information on directors are detailed in the Directors' Report of the Abacus Property Group.

## AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young and such declaration is shown on page 32:

## ROUNDING

The amounts contained in this report and in the annual financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the group under ASIC Class Order 98/0100. The Trust is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.
Abacus Funds Management Limited (ABN 66 007 415 590)

| | |
|---|---|
| John Thame | David J Bastian |
| Chairman | Managing Director |

Sydney, 13 September 2005

# CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE AND DISTRIBUTION
**YEAR ENDED 30 June 2005**

| | | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **Notes** | **$'000** | $'000 | **$'000** | $'000 |
| **STATEMENT OF FINANCIAL PERFORMANCE** | | | | | |
| **REVENUE FROM ORDINARY ACTIVITIES** | 2 | 52,053 | 89,510 | 48,388 | 66,663 |
| Depreciation and amortisation expenses | 3 | (188) | (144) | (43) | (68) |
| Carrying amount of investment properties disposed | | - | (41,497) | - | (21,495) |
| Borrowing costs expense | 3 | (8,851) | (7,077) | (8,851) | (7,077) |
| Bad and doubtful debts | 3 | 881 | (449) | (60) | (35) |
| Other expenses from ordinary activities | 3 | (6,555) | (4,969) | (2,094) | (2,614) |
| **PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | 37,340 | 35,374 | 37,340 | 35,374 |
| **NET PROFIT ATTRIBUTABLE TO UNITHOLDERS OF ABACUS TRUST** | | 37,340 | 35,374 | 37,340 | 35,374 |
| Net increase in asset revaluation reserve | 15(a) | 12,935 | 13,743 | 12,935 | 13,743 |
| Transaction costs on issue of units | 14(b) | (2,454) | - | (2,454) | - |
| **TOTAL REVENUES, EXPENSES, AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO UNITHOLDERS AND RECOGNISED DIRECTLY IN UNITHOLDERS' FUNDS** | | 10,481 | 13,743 | 10,481 | 13,743 |
| **TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH UNITHOLDERS AS OWNERS** | | 47,821 | 49,117 | 47,821 | 49,117 |
| Basic and diluted earnings per unit (cents) | 16 | 11.63 | 13.08 | 11.63 | 13.08 |
| **STATEMENT OF DISTRIBUTION** | | | | | |
| Net operating profit from ordinary activities | | 37,340 | 35,374 | 37,340 | 35,374 |
| Net transfer of non-distributable income to/from unitholders' funds | | (401) | (5,015) | (401) | (5,015) |
| **Distributions paid and payable** | 4 | 36,939 | 30,359 | 36,939 | 30,359 |
| Distribution per unit (cents per unit) | | 11.40 | 11.23 | 11.40 | 11.23 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2005

| | | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | Jun-05 | Jun-04 | Jun-05 | Jun-04 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **CURRENT ASSETS** | | | | | |
| Cash assets | 17(b) | 1,564 | 23,407 | 1,533 | 23,402 |
| Receivables | 5 | 2,260 | 2,561 | 247,216 | 111,060 |
| Other financial assets | 6 | 56,506 | 39,637 | - | - |
| Other | 7 | 1,355 | 785 | 857 | 359 |
| **TOTAL CURRENT ASSETS** | | 61,685 | 66,390 | 249,606 | 134,821 |
| **NON - CURRENT ASSETS** | | | | | |
| Investment properties | 8 | 317,808 | 180,035 | 8,147 | 8,094 |
| Other financial assets | 9 | 180,029 | 133,752 | 301,138 | 236,873 |
| Other | | 853 | - | 49 | - |
| **TOTAL NON-CURRENT ASSETS** | | 498,690 | 313,787 | 309,334 | 244,967 |
| **TOTAL ASSETS** | | 560,375 | 380,177 | 558,940 | 379,788 |
| **CURRENT LIABILITIES** | | | | | |
| Payables | 10 | 2,043 | 896 | 608 | 507 |
| Interest bearing liabilities | 11 | 26,750 | 84,000 | 26,750 | 84,000 |
| Provisions | 12 | 9,942 | 8,117 | 9,942 | 8,117 |
| **TOTAL CURRENT LIABILITIES** | | 38,735 | 93,013 | 37,300 | 92,624 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Interest bearing liabilities | 13 | 141,030 | - | 141,030 | - |
| **TOTAL NON-CURRENT LIABILITIES** | | 141,030 | - | 141,030 | - |
| **TOTAL LIABILITIES** | | 179,765 | 93,013 | 178,330 | 92,624 |
| **NET ASSETS** | | 380,610 | 287,164 | 380,610 | 287,164 |
| **UNITHOLDERS' FUNDS** | | | | | |
| Contributed equity | 14 | 339,782 | 259,672 | 339,782 | 259,672 |
| Asset revaluation reserve | 15(a) | 37,680 | 24,745 | 37,680 | 24,745 |
| Undistributed income | 15(b) | 3,148 | 2,747 | 3,148 | 2,747 |
| **TOTAL UNITHOLDERS' FUNDS** | | 380,610 | 287,164 | 380,610 | 287,164 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**YEAR ENDED 30 June 2005**

| | | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **Notes** | **$'000** | $'000 | **$'000** | $'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Rental receipts | | 24,610 | 14,978 | 30,770 | 19,679 |
| Mortgage interest receipts | | 6,472 | 5,650 | - | - |
| Bank interest received | | 959 | 533 | 959 | 533 |
| Audit fees paid | | (39) | (39) | (39) | (39) |
| Responsible entity fees paid | | (1,159) | (987) | (1,159) | (987) |
| Custody fees paid | | (69) | (54) | (69) | (54) |
| Borrowing costs | | (8,792) | (7,084) | (8,792) | (7,084) |
| Operating payments | | (757) | (265) | (757) | (116) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 17(a) | 21,225 | 12,732 | 20,913 | 11,932 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Payments for mortgage lending | | (196,336) | (175,690) | (146,068) | (136,965) |
| Proceeds from settlement of mortgage loans | | 150,371 | 155,190 | 109,680 | 125,176 |
| Advances (to)/from subsidiaries | | - | - | (135,025) | 11,297 |
| Purchase of investment properties | | (125,879) | (1,032) | (145) | (540) |
| Disposal of investment properties | | - | 42,428 | - | 22,729 |
| **NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES** | | (171,844) | 20,896 | (171,558) | 21,697 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of units | | 80,110 | - | 80,110 | - |
| Repayments of borrowings | | (57,000) | (37,000) | (57,000) | (37,000) |
| Proceeds from borrowings | | 140,780 | 32,600 | 140,780 | 32,600 |
| Distributions paid | | (35,114) | (29,341) | (35,114) | (29,341) |
| **NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES** | | 128,776 | (33,741) | 128,776 | (33,741) |
| **NET DECREASE IN CASH HELD** | | (21,843) | (113) | (21,869) | (112) |
| Add opening cash brought forward | | 23,407 | 23,520 | 23,402 | 23,514 |
| **CLOSING CASH CARRIED FORWARD** | | 1,564 | 23,407 | 1,533 | 23,402 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The financial report has been prepared in accordance with the historical cost convention except for investment properties which are carried at fair value.

Accounting policies are consistent with those of the prior year unless otherwise stated. During the year, the method of estimating the provision for doubtful debts has been revised. Previously the general provision for doubtful debts on mortgage loans was established based on 5% of loan interest income. In anticipation of adopting Australian equivalents to International Financial Reporting Standards (AIFRS), the estimate is now based on specific provisions.

### (b) Principles of consolidation

The consolidated financial statements include the financial statements of Abacus Trust and its controlled entities referred to collectively throughout these financial statements as the "consolidated entity" or the "Trust".

Information from the financial statements of subsidiaries is included from the date the parent entity obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for that part of the reporting period during which the parent entity has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-entity balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### (c) Distribution

Distributions to Abacus Property Group stapled security holders were paid by the Abacus Trust. In accordance with the Constitution of the Abacus Trust, the Trust fully distributes its distributable income to unitholders. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the taxable income of the Trust. Distributable income may include capital gains arising from the disposal of investments and tax deferred income. Unrealised gains and losses on investments that are recognised as income are transferred to unitholders' funds and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains. A provision for distribution is recognised in the Statement of Financial Position if the provision has been declared, determined or publicly recommended prior to balance date.

### (d) Cash and cash equivalents

Cash on hand and in banks are stated at nominal value.

For the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(e) Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accruals basis.

**(f) Investment Properties**

*Cost and valuation*

Land and buildings are considered to have the function of an investment and are therefore regarded as a composite asset. Accounting Standard AASB 1021 "Depreciation" does not require investment properties to be depreciated. Accordingly, the buildings and components thereof (including plant and equipment) are not depreciated. However, investment properties are depreciated for tax purposes prior to the distribution of any taxable income to unitholders.

Investment properties are carried at fair value. Independent valuations of investment properties are obtained at intervals of not more than three years from suitably qualified property valuers. Such valuations are reflected in the financial statements of the Trust. Notwithstanding, the directors of the Responsible Entity assess the carrying value of each investment property at each reporting date to ensure its carrying value does not materially differ from its fair value. Where necessary, the investment property is revalued to reflect its fair value being the amounts which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date.

When assets have been revalued, the potential effect of the capital gains tax ("CGT") on disposal has not been taken into account in the determination of the revalued carrying amount because the Trust does not expect to be ultimately liable for CGT in respect of the assets.

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, and during development includes financing charges and related professional fees incurred.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

**(g) Investments**

All non-current investments are carried at the lower of cost and recoverable amount.

**(h) Payables**

Payables represent liabilities to trade and other creditors for goods and services provided to the consolidated entity, whether or not billed, and are unpaid as at the end of the financial year. The amounts are non-interest bearing and are normally settled on 30 day terms.

**(i) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(j) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Trust entity.

Any transaction costs arising on the issue of the units are recognised directly in contributed equity as a reduction of the proceeds received.

**(k) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Operating leases*

The rental income from operating leases is recognised in accordance with the terms of the lease agreements and other constituent documents.

*Investment Income*

Revenue from other investment activities is recognised in accordance with the terms set out in the mortgage or loan documentation.

*Interest*

Control of the right to receive the interest payment.

*Distributions*

Control of the right to receive the distribution payment.

**(l) Leasing Fees**

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are deferred and amortised over the lease term in proportion to the rental revenue recognised in each financial year.

**(m) Leasing Incentives**

Lease incentives in the form of up-front payments, contributions to certain lessees' costs, relocation costs and fitouts that are offered in relation to the ongoing operation of the property are recognised as an asset and amortised over the period to which the lease relates.

Incentives provided to lessees in the form of lessor-paid fitouts and improvements that remain assets of the lessor, for example by becoming part of the structure of the property which is retained beyond the lease term, are capitalised to the carrying value of the property.

**(n) Taxes**

*Income taxes*

Under current income tax legislation a trust is not subject to income tax provided the unitholders are presently entitled to the taxable income of the Trust and the Trust fully distributes its taxable income.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (n) Taxes continued

*Goods and Services Tax (GST)*

Revenues derived and expenses incurred by the Trust are recognised net of the amount of GST can be recovered from the Australian Taxation Office (ATO). Amounts recognised as receivables and payables at balance date include the amount of GST receivable or payable.

Reduced input tax credits (RITC) recoverable by the Trust from the ATO are recognised as receivables in the statement of Financial Position.

### (o) Derivative financial instruments

*Interest rate swaps*

The consolidated entity enters into interest rate swap agreements that are used to convert the variable interest rate of its short-term borrowings to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

It is the Trust policy not to recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

### (p) Earnings per unit ("EPU")

Basic EPU is calculated as net profit attributable to unitholders, adjusted to exclude costs of servicing equity (other than distributions), divided by the weighted average number of units on issue enduring the year under review.

### (q) Transfers to/(from) unitholders' fund

Unrealised gains and losses in the net value of investments, accrued income not yet assessable and expenses provided for or accrued but not yet deductible, net capital losses and tax free or tax deferred income may be transferred to unitholders' funds, and may not included in the determination of distributions to unitholders.

### (r) Comparatives

Where necessary, comparatives have been reclassified to conform with changes in presentation in this financial report.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | | | |
| **Revenue from operating activities** | | | | | |
| Revenue from rental receipts | | 27,816 | 19,940 | 1,682 | 3,405 |
| Interest income from mortgage investments | | 22,641 | 24,601 | 14,942 | 17,254 |
| Fee income from mortgage investments | | 637 | 486 | - | - |
| Revenue from sale of investment properties | | - | 43,950 | - | 23,700 |
| Total revenue from operating activities | | 51,094 | 88,977 | 16,624 | 44,359 |
| **Revenue from non-operating activities** | | | | | |
| Distributions from other entities | | - | - | 30,805 | 21,771 |
| Bank interest | | 959 | 533 | 959 | 533 |
| Total revenue from non-operating activities | | 959 | 533 | 31,764 | 22,304 |
| **Total revenue from ordinary activities** | | 52,053 | 89,510 | 48,388 | 66,663 |
| **Gains** | | | | | |
| Net gain on disposal of investment properties | | - | 1,893 | - | - |
| **3. EXPENSES** | | | | | |
| Amortisation of non-current assets | | | | | |
| Leasehold alterations | | 188 | 144 | 43 | 68 |
| **Total amortisation of non-current assets** | | 188 | 144 | 43 | 68 |
| Borrowing costs expensed | | | | | |
| Interest expense | | 8,851 | 7,077 | 8,851 | 7,077 |
| **Total borrowing costs expensed** | | 8,851 | 7,077 | 8,851 | 7,077 |
| **Bad and doubtful debts** | | (881) | 449 | 60 | 35 |
| Other expenses | | | | | |
| Property outgoings | | 4,874 | 3,213 | 413 | 1,203 |
| Expenses on sales of investment properties | | - | 561 | - | 216 |
| Audit fees | | 35 | 40 | 35 | 40 |
| Responsible Entity fees | | 1,159 | 987 | 1,159 | 987 |
| Custody fees | | 77 | 52 | 77 | 52 |
| Other | | 410 | 116 | 410 | 116 |
| **Other expenses from ordinary activities** | | 6,555 | 4,969 | 2,094 | 2,614 |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **4. DISTRIBUTIONS PAID OR PROVIDED FOR ON UNITS** | | | | | |
| **(a) Distributions proposed and recognised as a liability** | | | | | |
| Distribution (2.90c per unit) (2004: 3.00c) | | 9,942 | 8,117 | 9,942 | 8,117 |
| **(b) Distributions paid during the year** | | | | | |
| *(i) Current year interim* | | | | | |
| Distribution September 2004 | | 8,328 | 7,098 | 8,328 | 7,098 |
| Distribution December 2004 | | 8,727 | 7,572 | 8,727 | 7,572 |
| Distribution March 2005 | | 9,942 | 7,572 | 9,942 | 7,572 |
| | | 36,939 | 30,359 | 36,939 | 30,359 |
| *(ii) Previous year final* | | | | | |
| Distribution (3.00c per unit) (2004: 3.00c) | | 8,117 | 7,099 | 8,117 | 7,099 |
| **5. RECEIVABLES** | | | | | |
| Trade debtors | | 2,009 | 2,438 | 1,817 | 2,245 |
| Other debtors | | 251 | 123 | 179 | 121 |
| Inter-trust receivables | | - | - | 245,220 | 108,694 |
| | | 2,260 | 2,561 | 247,216 | 111,060 |

**Terms and conditions**

Terms and conditions relating to the above financial instruments:

Trade and other debtors are non-interest bearing and generally on 30 day terms.

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **6. OTHER FINANCIAL ASSETS (CURRENT)** | | | | | |
| Investments in mortgage loans - secured | (a) | 57,362 | 39,637 | - | - |
| Provision for doubtful debts | | (856) | - | - | - |
| | | 56,506 | 39,637 | - | - |

(a) Mortgages are secured by real property assets. Repayment dates fall on or before 30 June 2006.

Weighted average interest rate at 30 June 2005 was 16.3% pa (2004:17.8%).

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **7. OTHER CURRENT ASSETS** | | | | | |
| Prepaid expenses | | 1,355 | 785 | 857 | 359 |
| Total other current assets | | 1,355 | 785 | 857 | 359 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 8. INVESTMENT PROPERTIES

| Property | Acquisition date | Cost including all additions $'000 | Independent valuation date | Independent valuation $'000 | **Consolidated value (note a) Jun-05 $'000** | Jun-04 $'000 |
|---|---|---|---|---|---|---|
| 66 Christina Road, Villawood, NSW (i) | 28-May-02 | 8,094 | 1-Jan-02 | 7,500 | 8,147 | 8,094 |
| **Properties owned by the parent entity, Abacus Trust** | | | | | 8,147 | 8,094 |
| 4 Ray Road, Epping, NSW (ii) | 30-Apr-97 | 27,184 | 30-Jun-05 | 44,000 | 44,000 | 40,339 |
| 431 Glebe Point Road, Glebe, NSW (iii) | 23-Sep-97 | 10,561 | 31-Dec-03 | 12,500 | 12,561 | 12,538 |
| Ashfield Mall, Ashfield, NSW (iv) | 15-Sep-97 | 69,716 | 30-Jun-05 | 98,700 | 98,700 | 89,055 |
| 10-12 Pike Street, Rydalmere, NSW (v) | 1-Oct-98 | 14,271 | 30-Jun-05 | 17,000 | 17,000 | 16,009 |
| CSIRO, Limestone Ave., Campbell, ACT (v) | 21-Jun-02 | 12,685 | 30-Jun-05 | 15,200 | 15,200 | 14,000 |
| Liverpool Plaza, Liverpool, NSW (iv) | 16-Aug-04 | 31,479 | 30-Jun-05 | 32,600 | 32,600 | - |
| Santos House, Adelaide, SA (iv) | 5-Oct-04 | 54,234 | 30-Jun-05 | 51,000 | 51,000 | - |
| 50 Miller Street, North Sydney, NSW (ii) | 17-Dec-04 | 38,261 | 30-Jun-05 | 38,600 | 38,600 | - |
| **Properties owned by Abacus Trust and its controlled entities** | | | | | 317,808 | 180,035 |

(i) As valued by Knight Frank Pty Limited
(ii) As valued by Colliers International Consultancy and Valuation Pty Ltd
(iii) As valued by Urbis Property Consultants
(iv) As valued by CB Richard Ellis Pty Ltd
(v) As valued by Savills (NSW) Pty Ltd

The consolidated value at 30 June 2005 includes capital expenditure after the last valuation date. The investment properties are used as security over the bank loans.

**Reconciliations**

Reconciliation of the carrying amounts of investment properties at the beginning and at the end of the current and previous financial period:

| | **Consolidated value Jun-05 $'000** | Jun-04 $'000 |
|---|---|---|
| *Investment properties* | | |
| Carrying amount at beginning | 180,035 | 210,988 |
| Additions | 124,838 | 1,850 |
| Net revaluation increments | 12,935 | 8,694 |
| Disposals | - | (41,497) |
| | 317,808 | 180,035 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **9. OTHER FINANCIAL ASSETS (NON-CURRENT)** | | | | | |
| Investments in mortgage loans - secured | (a) | 180,029 | 135,619 | 180,029 | 128,698 |
| Provision for doubtful debts | | - | (1,867) | - | - |
| Net investment in mortgage loans | | 180,029 | 133,752 | 180,029 | 128,698 |
| Interests in subsidiaries | (b) | - | - | 121,109 | 108,175 |
| | | 180,029 | 133,752 | 301,138 | 236,873 |

**(a) Investments in mortgage loans - secured**

The mortgages are secured by real property assets. Repayment dates fall between 28 June 2007 and 9 May 2008. Weighted average interest rate at 30 June 2005 was 11% pa (2004:14%).

**(b) Interests in subsidiaries**

| **Name** | **% of equity interest held by the Company** | | **Investment** | |
|---|---|---|---|---|
| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **%** | % | **$'000** | $'000 |
| **Subsidiaries of the Abacus Trust:** | | | | |
| Abacus Glebe Property Trust | 100 | 100 | 7,083 | 7,083 |
| Abacus Epping Park Property Trust | 100 | 100 | 29,547 | 25,663 |
| Abacus Ashfield Mall Property Trust | 100 | 100 | 57,908 | 48,962 |
| Abacus Industrial Property Trust | 100 | 100 | 8,902 | 7,902 |
| Abacus Campbell Property Trust | 100 | 100 | 2,514 | 1,315 |
| Abacus Liverpool Plaza Trust | 100 | - | 823 | - |
| Abacus Santos House Trust | 100 | - | (3,234) | - |
| Abacus Miller Street Trust | 100 | - | 316 | - |
| Abacus Mortgage Fund | 100 | 100 | 17,250 | 17,250 |
| | | | 121,109 | 108,175 |

Interposed Trusts:
Abacus Glebe Trust
Abacus Epping Trust
All subsidiaries are incorporated in Australia.

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **10. PAYABLES** | | | | | |
| Other creditors | (a) | 762 | 337 | 181 | 327 |
| Goods and services tax | | 498 | 185 | (23) | (98) |
| Accrued expenses | | 783 | 374 | 450 | 278 |
| | | 2,043 | 896 | 608 | 507 |

(a) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **11. INTEREST-BEARING LIABILITIES (CURRENT)** | | | | | |
| Borrowings secured by mortgage | | | | | |
| - bank loans | | 26,750 | 84,000 | 26,750 | 84,000 |

The bank loans are provided by several banks. Interest is based on floating rates and is paid quarterly based on existing swap and yield rates quoted on the day. The total loan facility existing at the end of the financial year was $29.75 million and the undrawn portion of the total facilities available was $3 million as at 30 June 2005.

| | | | | |
|---|---|---|---|---|
| **12. PROVISIONS (CURRENT)** | | | | |
| Distribution to unitholders | 9,942 | 8,117 | 9,942 | 8,117 |
| **13. INTEREST-BEARING LIABILITIES (NON - CURRENT)** | | | | |
| Borrowings secured by mortgage | | | | |
| - bank loans | 141,030 | - | 141,030 | - |

The bank loans are provided by several banks. Interest is based on floating rates and is paid quarterly based on existing swap and yield rates quoted on the day. The total loan facility existing at year end was $154.03 million and the undrawn portion of which was $13 million as at 30 June 2005.

| | | | | |
|---|---|---|---|---|
| **14. CONTRIBUTED EQUITY** | | | | |
| **(a) Net capital Contributed** | | | | |
| Capital Contributed | 348,557 | 265,993 | 348,557 | 265,993 |
| Issue and finance costs | (8,775) | (6,321) | (8,775) | (6,321) |
| **Total Contributed Equity** | **339,782** | **259,672** | **339,782** | **259,672** |

**(b) Movements in contributed equity for the year**

| | **Jun-05** | | Jun-04 | |
|---|---|---|---|---|
| | **Units on issue** | | Units on issue | |
| | **Number** | **Value** | Number | Value |
| | **'000** | **$'000** | '000 | $'000 |
| Balance at the beginning of the financial year | 270,420 | 259,672 | 270,420 | 259,672 |
| Issued during the year | | | | |
| - security purchase plan | 14,249 | 15,817 | - | - |
| - institutional equity raising | 58,167 | 66,747 | - | - |
| - less transaction costs | - | (2,454) | | |
| **Balance at the end of the financial year** | **342,836** | **339,782** | **270,420** | **259,672** |

**(c) Terms and conditions of contributed equity**

Unitholders have the right to receive distributions as declared and, in the event of winding up of the consolidated entity, to participate in the proceeds from sale of all surplus assets in proportion to the number of units held.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **15. RESERVES AND RETAINED EARNINGS** | | | | | |

**(a) Asset revaluation**

(i) Nature and purpose of reserve
The asset revaluation reserve is used to record increments and decrements in the value of investment properties. The reserve can only be used to pay dividends in limited circumstances.

| | | | | |
|---|---|---|---|---|
| (ii) Movements in reserve | | | | |
| Balance at beginning of year | 24,745 | 11,002 | 24,745 | 11,002 |
| Revaluation increments on revaluation of investment properties | 12,935 | 8,694 | 12,935 | 8,694 |
| Realised revaluation reserve on sale of investment properties | - | 5,049 | - | 5,049 |
| Balance at end of year | 37,680 | 24,745 | 37,680 | 24,745 |
| **(b) Retained earnings** | | | | |
| Balance at the beginning of year | 2,747 | 2,781 | 2,747 | 2,781 |
| Net profit attributable to unitholders | 37,340 | 35,374 | 37,340 | 35,374 |
| Realised revaluation reserve | - | (5,049) | - | (5,049) |
| Total available for appropriation | 40,087 | 33,106 | 40,087 | 33,106 |
| Distributions provided for or paid | (36,939) | (30,359) | (36,939) | (30,359) |
| Balance at end of year | 3,148 | 2,747 | 3,148 | 2,747 |

**16. EARNINGS PER UNIT**

The following reflects the income and unit data used in the calculation of basic and diluted
earnings per unit:

| | **Jun-05** | Jun-04 |
|---|---|---|
| | **$'000** | $'000 |
| Net profit attributable to unitholders | 37,340 | 35,374 |

| | **Number of shares** | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **'000** | '000 |
| Weighted average number of units | 321,169 | 270,420 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **17. STATEMENT OF CASH FLOWS** | | | | | |
| **(a) Reconciliation of the net profit after tax to the net cash flows from operations** | | | | | |
| Net profit | | 37,340 | 35,374 | 37,340 | 35,374 |
| Amortisation of non-current assets | | 188 | 144 | 43 | 68 |
| Provision for doubtful debts | | (881) | 449 | 60 | 35 |
| Net gain on sale of non current assets | | - | (1,892) | - | (1,989) |
| Increase in other assets | | (16,569) | (20,627) | (16,631) | (21,250) |
| (Decrease)/increase in payables | | 1,147 | (716) | 101 | (306) |
| Net cash flow from operating activities | | 21,225 | 12,732 | 20,913 | 11,932 |
| **(b) Reconciliation of cash** | | | | | |
| Cash balance comprises: | | | | | |
| Cash assets | | 1,564 | 23,407 | 1,533 | 23,402 |
| Closing cash balance | | 1,564 | 23,407 | 1,533 | 23,402 |
| **(c) Financing facilities available** | | | | | |
| At reporting date, the following financing facilities had been negotiated and were available: | | | | | |
| Total facilities | | | | | |
| - bank loans | | 183,780 | 100,900 | 183,780 | 100,900 |
| Facilities used at reporting date | | | | | |
| - bank loans | | (167,780) | (84,000) | (167,780) | (84,000) |
| Facilities unused at reporting date | | | | | |
| - bank loans | | 16,000 | 16,900 | 16,000 | 16,900 |
| **18. AUDITORS' REMUNERATION** | | | | | |
| Amounts received or due and receivable by Ernst & Young Australia for: | | | | | |
| - an audit of the financial report of the entity and any other entity in the consolidated entity | | 35,282 | 39,900 | 35,282 | 39,900 |
| | | 35,282 | 39,900 | 35,282 | 39,900 |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 19. CUSTODIAN'S REMUNERATION

Custodian fees are paid by the Trust and are calculated in accordance with the Custody Agreement dated 21 August 2001 between the custodian, Perpetual Trustee Company Limited and Abacus Funds Management Limited as the Responsible Entity.

As per the custody agreement, the Custodian was entitled to a fee equal to 0.015% of the gross asset value of the Trust subject to a minimum fee of $20,000 per annum. The Trust incurred custody fees of $77,306 for the year ended 30 June 2005 (2004: $52,825).

### 20. DIRECTORS AND EXECUTIVES DISCLOSURES

**(a) Details of specified Directors and specified Executives**

**(i) Specified Directors**

The Directors of Abacus Funds Management Limited in office during and since the end of the financial year are detailed in the Directors' Report on page 3.

**(ii) Specified Executives**

Abacus Funds Management Limited does not employ any person deemed specified Executives of the Abacus Trust.

**(b) Remuneration of Specified Directors of the Responsible Entity**

**Remuneration of Non-Executive Directors**

The remuneration policy for Non-Executive Directors seeks to appropriately remunerate them for their time, commitment and responsibilities.

Non-executive directors are paid a directors fee and do not receive any retirement benefits (other than superannuation which is inclusive in the directors fee) or performance related compensation. Where a Non-Executive directors serves on the Group's Credit Committee, they receive remuneration for this service separately from and in addition to, a directors fees. Non-Executive directors fees are reviewed annually. The aggregate pool available for payment of directors fees to Non-Executive Directors of the Group is an amount not to exceed $165,000 (inclusive of superannuation guarantee contributions). This amount was applicable at the time of listing in November 2002.

Given the current approved total Non Executive Directors fee pool has been in force since the initial listing of the Group in late November 2002, the Directors intend to propose a change to the directors fee pool to incorporate a structure of a base fee together with fees for service on various Board committees. It is intended that security holders will be asked to approve an increase in directors' fees at the next Annual General Meeting of the Group.

**(b) Remuneration of Executive Directors and Senior Executives**

**Executive Employment Contracts**

On 1 October 2002, the Group entered into a thirty three month executive employment contract with an Executive Director, F.M Wolf, and the Managing Director, D.J.Bastian. The agreement stipulates the starting base salary, allows for annual review and inflation adjustment and provides for short term incentive payments in addition to the executive's base salary at the discretion of the Board. The agreements expired on 30 June 2005 and new contracts agreements are in the process of being negotiated.

There are no other executive service agreements.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**20. DIRECTORS AND EXECUTIVES DISCLOSURES continued**

**Executive pay**

The Board's policy on Executive pay is to ensure remuneration is reasonable, competitive, motivating and appropriate for the results delivered. The Remuneration and Nomination Committee takes external advice in its deliberations.

The current remuneration structure has two components, the combination of which comprises the Executive's total remuneration:

- base pay & benefits (fixed); and
- short term incentive (variable "at risk")

There is currently no long term incentive structure or program in place. The total remuneration package seeks to provide an appropriate mix of base salary with short term incentive.

**(i) Base Pay**

Executives are offered a base pay that comprises the fixed component of their total remuneration. Subject to meeting minimum Superannuation Guarantee obligations, Executives are able to nominate the mix between cash and superannuation contributions.

Base salary is set by reference to the Executives position, experience and performance. The Group aims to ensure base salaries are competitive in the market. Base salaries are reviewed annually having regard to individual and Group performance and external market conditions.

The base pay of Executive Directors and senior executives are reviewed and approved by the Remuneration & Nominations Committee.

**(ii) Short Term Incentives**

At the discretion of the Board, executives and senior managers may receive short term incentive payments based on reference to a variety of measures, both financial and non-financial. These measures currently primarily include Group profitability targets, returns to security holders and certain key performance indicators such as assets under management.

The Board considers that performance linked objectives that have an operational and financial impact focus are best suited to the outcomes desired by security holders. Non-financial measures are also taken into account.

The actual level of short term incentive payments awarded to each Executive at the end of each year is determined by reference to achievement of the targets and the extent to which executives were able to directly contributed to such achievement.

In awarding short term incentives for the 2006 financial year, the directors intend to make the performance indicators more specific to individuals and their contribution to the Group's results.

The remuneration of Specified Directors of the Responsible Entity for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| J Thame | 66,320 | - | 6,560 | 72,880 |
| D Bluth | 33,320 | - | 3,295 | 36,615 |
| P Green | 26,528 | - | 2,622 | 29,150 |
| M Irving | 29,150 | - | - | 29,150 |
| F Wolf | 551,250 | 400,000 | - | 951,250 |
| D Bastian | 484,540 | 250,000 | 11,585 | 746,125 |
| **Total** | **1,191,108** | **650,000** | **24,062** | **1,865,170** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 20. DIRECTORS AND EXECUTIVES DISCLOSURES continued

The remuneration of Directors for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| J Thame | 65,793 | - | 7,087 | 72,880 |
| D Bluth | 30,527 | - | 3,289 | 33,816 |
| P Green | 26,317 | - | 2,835 | 29,152 |
| M Irving | 29,152 | - | - | 29,152 |
| F Wolf | 525,000 | 350,000 | - | 875,000 |
| D Bastian | 461,428 | 250,000 | 11,002 | 722,500 |
| **Total** | **1,138,217** | **600,000** | **24,213** | **1,762,500** |

### Director transactions

Directors of the Responsible Entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances.

During the year ended 30 June 2005 directors received distributions from the controlled entity on their stapled securities in the Abacus Property Group and on their investment in various Trusts managed by Abacus Funds Management Limited as Responsible Entity.

### Director-related entity transactions

Abbott Tout was paid $120,238 (2004: $23,825) for legal services relating to lease documentation, sales contracts and other trust issues. A partner in Abbott Tout, Mr Dennis Bluth, is a director of Abacus Group Holdings Limited and Abacus Funds Management Limited.

### Equity instruments of directors and their director-related entities
**Interests at balance date**

| | Stapled securities Fully paid | |
|---|---|---|
| | **Jun-05 Number** | Jun-04 Number |
| J Thame | 43,000 | 35,000 |
| F Wolf | 6,818,046 | 6,806,046 |
| D Bastian | 7,040,000 | 7,040,000 |
| P Green | 9,366,930 | 9,366,930 |
| M Irving | 24,000 | 20,000 |
| | **23,291,976** | **23,267,976** |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 20. DIRECTORS AND EXECUTIVES DISCLOSURES continued

### Related party transactions

In accordance with existing constitutions, management agreements and prospectuses, Abacus Funds Management Limited (Responsible Entity) and its subsidiary Abacus Property Services Pty Limited were paid performance, property and funds management fees during the year by the consolidated entity in the total amount of $1.53 million (2004: $1.3 million).

As at 30 June 2005, Abacus Trust had payables to Abacus Funds Management Limited of $1.16 million and to Abacus Property Service Pty Ltd of $0.37 million.

Loans made by Abacus Trust to Abacus Group Holdings Limited and its subsidiaries amounted to $180 million including interest, repayable on or before 30 June 2008. Interest is charged at a rate of 10% per annum (2004: 14%).

### Other related party transactions

All related party transactions are conducted on normal commercial terms and conditions.

## 21. SEGMENT INFORMATION

### Business segments

The consolidated entity operates within two business segments within the property industry, being property rental and sales and other property-based investments. The property rental and sales operations comprise the sales, leasing, and maintenance of commercial, retail and industrial properties. The other property-based investments comprise mortgage lending activities. Revenue is derived from property rental, interest, fees and property sales.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**21. SEGMENT INFORMATION continued**

**Business segments continued**

| | Property Rental & Sales | | Other property-related investments | | Consolidated | |
|---|---|---|---|---|---|---|
| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Segment revenue:** | | | | | | |
| Revenues from customers outside the consolidated entity | 27,816 | 63,890 | 23,278 | 25,087 | 51,094 | 88,977 |
| Interest revenue | | | | | 959 | 533 |
| Total consolidated revenue | | | | | 52,053 | 89,510 |
| **Segment results:** | | | | | | |
| Segment result | 21,716 | 17,831 | 23,516 | 24,087 | 45,232 | 41,918 |
| Interest income | | | | | 959 | 533 |
| Borrowing costs | | | | | (8,851) | (7,077) |
| Trust net profit attributable to unitholders | | | | | 37,340 | 35,374 |
| **Segment assets** | | | | | | |
| Segment assets | 323,837 | 206,785 | 236,538 | 173,392 | 560,375 | 380,177 |
| **Segment liabilities** | | | | | | |
| Segment liabilities | 2,043 | 882 | - | 14 | 2,043 | 896 |
| Interest-bearing loans | | | | | 167,780 | 84,000 |
| Unallocated liabilities | | | | | 9,942 | 8,117 |
| Total liabilities | | | | | 179,765 | 93,013 |
| **Other segment information:** | | | | | | |
| Acquisition of controlled | | | | | | |
| Depreciation and amortisation | 188 | 144 | - | - | 188 | 144 |
| Non-cash expenses other than depreciation and amortisation | 131 | 82 | (1,012) | 367 | (881) | 449 |

**Segment accounting policies**

The segment accounting policies are the same as the Trust's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

**Segment location**

The consolidated entity operates wholly within Australia.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 22. FINANCIAL INSTRUMENTS

### (a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective interest rate of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follow:

| Financial Instruments 2005 | Floating interest rate $'000 | Fixed interest rate maturing in: =<1 year $'000 | > 1 to 5 years $'000 | >5 years $'000 | Non-interest bearing $'000 | Total Carrying Amount $'000 | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 1,564 | - | - | - | - | 1,564 | 5.32% |
| Receivables | - | - | - | - | 2,260 | 2,260 | - |
| Other financial assets | - | 56,506 | 180,029 | - | - | 236,535 | 12.40% |
| | 1,564 | 56,506 | 180,029 | - | 2,260 | 240,359 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 2,043 | 2,043 | - |
| Bank loans | 167,780 | - | - | - | - | 167,780 | 7.01% |
| Interest rate swaps | (151,750) | 13,000 | 28,750 | 110,000 | - | - | 7.07% |
| Distribution payable | - | - | - | - | 9,942 | 9,942 | - |
| | 16,030 | 13,000 | 28,750 | 110,000 | 11,985 | 179,765 | |

| Financial Instruments 2004 | Floating interest rate $'000 | Fixed interest rate maturing in: =<1 year $'000 | > 1 to 5 years $'000 | >5 years $'000 | Non-interest bearing $'000 | Total Carrying Amount $'000 | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 23,407 | - | - | - | - | 23,407 | 5.13% |
| Other debtors | - | - | - | - | 2,561 | 2,561 | - |
| Other financial assets | - | 39,637 | 135,619 | - | - | 175,256 | 12.41% |
| | 23,407 | 39,637 | 135,619 | - | 2,561 | 201,224 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 896 | 896 | - |
| Bank loans | 84,000 | - | - | - | - | 84,000 | 7.48% |
| Interest rate swaps | (82,750) | - | 82,750 | - | - | - | 7.49% |
| Distribution payable | - | - | - | - | 8,117 | 8,117 | - |
| | 1,250 | - | 82,750 | - | 9,013 | 93,013 | |

### (b) Credit risk exposures

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract.

The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**22. FINANCIAL INSTRUMENTS continued**

### (c) Net fair value of financial assets and liabilities

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short term to maturity.

*Trade receivables and trade creditors:* The carrying amount approximates fair value.

*Short-term borrowings:* The carrying amount approximates fair value because of their short term to maturity.

*Long-term bank borrowings and debentures:* The fair values of long-term borrowings are estimated by discounting expected cash flows at the interest rates currently offered to the consolidated entity for debt of the same remaining maturity and security plus costs expected to be incurred were the liability settled.

*Non-current investments/securities:* A reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

All other financial assets and liabilities have been recognised at the balance date at their net fair values, except for the following:

| | **Total carrying amount as per the statement of financial position** | | **Aggregate net fair value** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Financial liabilities*** | | | | |
| Bank loans | 167,780 | 84,000 | 167,811 | 83,939 |
| Interest rate swaps | n/a | n/a | 4,869 | (669) |

n/a Not applicable since financial instruments are not recognised in the financial statements

**Unrecognised financial instruments**

*Interest rate swap agreements:*

The net fair value of interest rate swap contracts is determined as the difference in present value of the future interest cash flows.

**23. LEASES**

All properties owned by the Trust are leased to third parties under operating leases at 30 June 2005. Lease terms vary between tenants.

| | **CONSOLIDATED** | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| Future minimum rental revenues under non-cancellable operating leases at 30 June 2005 are as follows: | | |
| - not later than one year | 29,408 | 9,280 |
| - later than one year and not later than five years | 66,654 | 23,944 |
| - later than five years | 15,194 | 8,041 |
| Total | 111,256 | 41,265 |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 24. COMMITMENTS AND CONTINGENCIES

The Trust has a commitment to pay the undrawn portion of loan facilities to third parties in the amount of $7.9 million. The Trust has also provided a bank guarantee of $1.0 million to a related Group company.

### 25. SUBSEQUENT EVENTS

On 10 August 2005, the Abacus Property Group completed a capital raising for a total amount of $55 million and issued approximately 42.6 million securities. Of the total capital raised, approximately $51.3 million was allocated to Abacus Trust.

Other than as disclosed already in this report and to the knowledge of directors, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may affect, the Trust's operations in future financial years, the results of those operations or its state of affairs in future financial years.

### 26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("AIFRS")

Abacus Trust has identified key areas impacted by AIFRS and is currently in the final stages of quantifying those impacts.

The opening AIFRS balance sheet as at 1 July 2004 has been completed and will form the basis of accounting under AIFRS in the future and is required for the preparation of Abacus Trust's first fully compliant financial statements for the half year ending 31 December 2005.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS including the estimated financial impacts to total equity as at transition date 30 June 2005 and on net profit for the year ended 30 June 2005. The actual effects of transition to International Financial Reporting Standards (IFRS) may differ from these estimates when implementation is finalised due to (a) ongoing work being undertaken on AIFRS; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted industry practice in the interpretation and application of AIFRS and UIG Interpretations.

**(a) Reconciliation of equity as presented under AGAAP to that under AIFRS**

| | Notes | CONSOLIDATED | | PARENT ENTIY | |
|---|---|---|---|---|---|
| | | **30-Jun-05** | 1-Jul-04 | **30-Jun-05** | 1-Jul-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| Total equity under AGAAP | | 380,610 | 287,164 | 380,610 | 287,164 |
| **Adjustment to retained earnings** | | | | | |
| Transfer of asset revaluation reserve to retained earnings | (i) | (37,680) | (24,745) | (37,680) | (24,745) |
| Transfer of asset revaluation reserve to retained earnings | (i) | 37,680 | 24,745 | 37,680 | 24,745 |
| Amortisation of lease incentives | (ii) | 464 | 413 | 18 | 37 |
| **Total equity under AIFRS** | | 381,074 | 287,577 | 380,628 | 287,201 |

(i) Under AASB 140 *Investment Property*, if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The Group intends to value its investment properties at fair value adhering to the standard.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS continued**

**(a) Reconciliation of equity as presented under AGAAP to that under AIFRS continued**

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(ii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The Trust currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

**(b) Reconciliation of net profit under AGAAP to that under AIFRS**

| **YEAR ENDED 30 June 2005** | | **CONSOLIDATED** | | **PARENT ENTIY** | |
|---|---|---|---|---|---|
| | | **30-Jun-05** | 1-Jul-04 | **30-Jun-05** | 1-Jul-04 |
| | **Notes** | **$'000** | $'000 | **$'000** | $'000 |
| **Net profit reported under AGAAP** | | 37,340 | 35,374 | 37,340 | 35,374 |
| Revaluation of investment properties | (i) | 12,935 | - | - | - |
| Amortisation of lease incentives | (ii) | 464 | 413 | 18 | 37 |
| **Net profit under AIFRS** | | 50,739 | 35,787 | 37,358 | 35,411 |

(i) Under AASB 140 *Investment Property*, if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The Trust will continue to value its investment properties at fair value adhering to the standard.

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(ii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The Trust currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

**(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005**
No material impacts to the cash flows have been identified on transition to AIFRS.

**(d) Impact of Other Standards**
(i) Under AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, financial assets will be classified as either held for trading, held-to-maturity, available for sale or loans and receivables. Depending on the classification, assets will be measured at fair value or amortised cost. Loans and receivables originated by the entity and not held for trading will be accounted for at amortised cost using the effective interest method.

The Trust also has derivative instruments in the form of interest rate swaps which under the new Standards would have to be taken up in the balance sheet at fair value. At 30 June 2005 the Trust's interest rate swap agreements with the banks were valued at $4.9 million which would decrease retained earnings at 1 July 2005.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS continued**

**(d) Impact of Other Standards continued**

Under AASB 132 "Financial Instruments: Disclosures and Presentation" contractual obligations are regarded as liabilities if unitholders have the ability to redeem units form the scheme. In the absence of changes to constitution, all unitholders' funds will be recognised as liabilities of the Trust rather than as equity. The result of this would be to reduce net assets of the Trust to zero. As distributions paid and payable make up a proportion of unitholders' fund, they would be classified as interest expense in the Statement of Financial Performance.

Units in trusts with fixed lives may be classified as debts instead of equity under IFRS. To ensure the Trust is able to continue to classify the units as equity, any necessary amendments to the Trust's constitution will be made. On 6 June 2005, ASIC issued Class Order 05/566 giving relief to facilitate changes to constitutions of listed and unlisted registered schemes that are not subject to mandatory redemption requirement to remove their limited lives without requiring a special resolution of members. The Responsible Entity is now completing the changes to the Trust's constitution and the members will be notified accordingly.

The Trust decided to apply the exemption provided in AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 "Financial Instruments: Presentation and Disclosures" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

(ii) Under AASB 118 *Revenue* the revenue recognition criteria in the sale of goods include requirements that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and that the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Any profit on sale of investment properties is currently recognised as income on exchange of unconditional contract of sale.

(iii) Under UIG Interpretation 1013 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* at the date of transition, one of the combining entities shall be identified as the parent for the purpose of preparing consolidated financial reports by combining the financial reports of the entities whose securities are stapled. The combined balance sheet shall present the combined equity of the stapled securities as equity without identifying any minority interests. AASB 127 *Consolidated and Separate Financial Statements* will be applied subsequently in preparing the APG's financial reports.

APG has identified Abacus Group Holdings Limited as the parent entity and the consolidated financial reports beginning from half year ending 31 December 2005 will be under the Company's name. Abacus Trust being a managed investment scheme will continue to prepare its own financial reports.

(iv) The financial impact of AIFRS is not expected to affect the distribution policy of the Trust. It has been the policy of the Trust to align distribution to earned income as closely as possible so that in future, in determining distributable income any material non-cash income or expense items will be excluded in the calculation of distributable profits. The Trust will specifically account for non-cash income or expense items arising from straight-lining of fixed rental increases, amortisation of lease incentives, revaluation movements, mark to market valuation of its derivatives and the effects of any other amortisation of assets.

A reconciliation of net profit after tax to distributable profits will be a requirement prior to providing for or declaring any distribution. In similar manner, retained earnings will be examined and for internal purposes may have to be categorised to ensure that distributions are paid from distributable profits.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Abacus Funds Management Limited, Responsible Entity of Abacus Trust, we state that:

(1) in the opinion of the directors,:

(a) the financial statements and notes of the Trust are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Trust's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2005.

On behalf of the Board

John Thame
Chairman

David J Bastian
Managing Director

Sydney, 13 September 2005

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

**Auditor's Independence Declaration to the Directors of Abacus Funds Management Limited**

In relation to our audit of the financial report of Abacus Trust for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark O'Sullivan
Partner
Sydney
13 September 2005

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Exchange 10172

## Independent audit report to unit-holders of Abacus Trust

### Scope

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Abacus Trust (the Trust) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the Trust and the entities it controlled during that year.

The directors of Abacus Funds Management Limited, the Responsible Entity of the Trust are responsible for preparing a financial report and the additional disclosures that gives a true and fair view of the financial position and performance of the Trust and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on them to the unit-holders of the Trust. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report present fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view

ERNST & YOUNG

### Independence

We are independent of the Trust, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the Trust a written Auditor's Independence Declaration.

### Audit opinion

In our opinion, the financial report of Abacus Trust is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Abacus Trust and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney
13 September 2005

# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

The Annual Financial Report of Abacus Group Holdings Limited (ABN 31 080 604 619) and its controlled entities.

| Contents | Page |
| --- | --- |


It is recommended that this Annual Financial Report should be read in conjunction with the Annual Financial Reports of Abacus Property Group and Abacus Trust as at 30 June 2005. It is also recommended that the report be considered together with any public pronouncements made by the Abacus Property Group in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

# DIRECTORS' REPORT
**30 JUNE 2005**

The Directors of Abacus Group Holdings Limited (AGHL or the "Company") submit their report for the year ended 30 June 2005.

## DIRECTORS

The Directors of Abacus Group Holdings Limited in office during the financial year and until the date of this report are set out below:

| | |
|---|---|
| John Thame | Chairman (Non-executive) |
| Frank Wolf | Deputy Chairman (Executive) |
| David Bastian | Managing Director |
| Dennis Bluth | Non-executive Director |
| Phillip Green | Non-executive Director |
| Malcolm Irving | Non-executive Director |
| Len Lloyd | Executive Director |

## PRINCIPAL ACTIVITIES

The principal activities of Abacus Group Holdings Limited during the year ended 30 June 2005 were property related funds management, property and project management and participation in other property related joint ventures and developments.

## OPERATING PROFIT

Abacus Group Holding Limited earned on operating profit after tax of $2.5 million for the year ended 30 June 2005 (2004: loss ($0.7) million).

## DIVIDENDS

There were no dividends paid by Abacus Group Holdings Limited during the year ended 30 June 2005 (2004:nil). The Abacus Trust funded distributions to members for the year ended 30 June 2005.

## REVIEW OF OPERATIONS

### Overview

Abacus Group Holdings Limited (AGHL) and Abacus Trust (AT) together make up the ASX listed Abacus Property Group (APG or the "Group"). Shares in AGHL and units in AT have been stapled together so that neither can be dealt with without the other. An APG security consists of one share in AGHL and one unit in AT. A transfer, issue or reorganisation of a share in AGHL is accompanied by a transfer, issue or reorganisation of a unit in AT.

AGHL operates wholly within Australia (except for an investment of approximately $3 million in a joint venture vehicle in the UK) and has funds management and property management businesses and participates in property refurbishment and development to add value to the assets within its portfolio. AGHL also participates in joint venture projects with a number of experienced partners in New South Wales, Queensland, and Victoria.

# DIRECTORS' REPORT
**30 JUNE 2005**

**REVIEW OF OPERATIONS continued**

**Operating Results for the Period**

A summary of combined revenue and profits is as follows:

| | Year ended 30 June 2005 | |
|---|---|---|
| | Revenue $'000 | Profit $'000 |
| *Business Segments* | | |
| Property rental and sales | 15,143 | 2,716 |
| Other property-based investments | 9,184 | 7,795 |
| Funds management | 10,283 | 7,425 |
| | 34,610 | 17,936 |
| Combined entity adjustments | 206 | (15,492) |
| Combined entity operating revenue and profit | 34,816 | 2,444 |

During the period under review, AGHL achieved strong growth in its key business activities of funds management, property and project management and participation in property joint venture activities.

In funds management, Abacus Funds Management Limited, in its role as Responsible Entity:

- sold one property and acquired or contracted to acquire 9 additional properties in the Abacus Diversified Income Fund (ADIF). Total assets of ADIF increased $55.5 million to $222.4 million for the year ended 30 June 2005;
- established three new managed investment schemes with total assets of $39.5 million at June 2005;

Total assets under management (combining assets owned by the Abacus Property Group and assets managed by the Group on behalf of external investors) increased approximately $275 million to approximately $950 million at 30 June 2005 (or 40%) compared to approximately $675 million at 30 June 2004.

On 31 May 2005, AGHL executed an agreement to acquire Storage King Funds Management Limited, the Responsible Entity of the Abacus Storage Property Trust, for the purpose of establishing the Abacus Storage Fund (a stapled security fund comprising a managed investment scheme and an operating company). AGHL agreed to provide sufficient funds to enable the completion of the acquisition of an initial portfolio of storage facilities. At 30 June 2005, AGHL had advanced approximately $6 million to fund initial deposits, acquisition costs and other funds establishment expenses. The acquisition of the initial portfolio of storage facilities, totalling approximately $100 million, is scheduled to be completed during August 2005 and AGHL has budgeted to advance approximately $40 million to assist in settlements pending the issue of a PDS/Prospectus.

Abacus has a number of joint venture investments with experienced property investors or developers in New South Wales, Queensland and Victoria. These joint venture activities enable Abacus to participate in a range of property related opportunities with industry leaders who have local knowledge and a depth of management experience. AGHL realised profits from the completion of its interests in two developments in Sydney and the sale of its interests in two joint ventures in Melbourne. During the year to June 2005, joint venture investment activities contributed $1.6 million to the AGHL profit result.

# DIRECTORS' REPORT
**30 JUNE 2005**

## REVIEW OF OPERATIONS continued

### Operating Results for the Period continued

AGHL continued its investment in property, property related joint ventures and investments. In addition, AGHL continued the sale of commercial strata, including the sale of a strata retail shop, in 109 Pitt Street, Sydney, in tandem with the progressive refurbishment of the building. Sales of $6.4 million were achieved, while a further $1.2 million was spent on refurbishment.

### Review of Financial Condition

During the year ended 30 June 2005, the contributed equity of AGHL increased $5.4 million to $12.0 million at 30 June 2005. Capital raisings were made through institutional placements in August 2004 (27.00 million shares at $1.18) and December 2004 (31.16 million shares at $1.26) and a Security Purchase Plan for existing shareholders was completed in October 2004 (14.25 million shares at $1.18). This additional capital was directed towards acquisition of property assets for the Abacus Trust and for growth of the funds management business (particularly the Abacus Diversified Income Fund and a number of new managed investment schemes).

As at 30 June 2005, existing loan facilities totalled approximately $162 million, of which $91 million was drawn. AGHL manages interest rate exposure on external bank debt facilities (drawn to $5.0 million at June 2005) through the use of interest rate swap contracts. At 30 June 2005, 62% of interest commitments on external bank loans were fixed.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of AGHL occurred during the financial year:

- Total assets increased $46.3 million to $213.2 million at 30 June 2005 compared to $166.9 million at 30 June 2004;
- Retained earnings increased $1.8 million to $9.1 million at 30 June 2005 compared to $7.3 million at 30 June 2004;
- Total equity increased $7.6 million to $23.2 million at 30 June 2005 compared to $15.6 million at 30 June 2004, reflecting profits and additional capital raised;
- The Abacus Diversified Income Fund increased its total gross assets under management by approximately $55 million to $222 million at 30 June 2005 compared to approximately $167 million at 30 June 2004;

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 10 August 2005, the Group completed a capital raising of $55.0 million and issued approximately 42.6 million securities at $1.29 per security. Of the total $55.0 million capital raised, approximately $3.7 million has been allocated to AGHL.

During August 2005, the Abacus Group Holdings Limited (AGHL) completed the acquisition of the initial portfolio of storage facility assets for the Abacus Storage Fund, advancing approximately $36 million, through an associated entity, ahead of raising capital from external retail investors.

Other than as disclosed already in this report and to the knowledge of directors, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may effect, AGHL's operations in future financial years, the results of those operations or AGHL's state of affairs in future financial years.

# DIRECTORS' REPORT
**30 JUNE 2005**

**REVIEW OF OPERATIONS continued**

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors have excluded from this report any other information on the likely developments in the operations of the Company and the expected results of those operations in future financial years, as the Directors believe that it would be likely to result in unreasonable prejudice to the operations of the Company.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

Environmental responsibilities, such as waste removal and water treatment, have been managed in compliance with all applicable regulations and licence requirements and in accordance with industry standards. No breaches of requirements or additional environmental issues have been discovered nor brought to the board's attention. There has been no known significant of any environmental requirements applicable to the company.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Responsible Entity, Abacus Funds Management Limited, has paid an insurance premium in respect of a contract insuring its directors and full time executive officers and secretary. The terms of this policy prohibit disclosure of the nature of the risks insured or the premium paid.

## INFORMATION ON DIRECTORS AND OFFICERS

The Directors of Abacus Group Holdings Limited and Abacus Funds Management Limited, the Responsible Entity of the Abacus Trust, at any time during the financial year and until the date of this report are as set out below, with qualifications, experience and special responsibilities.

**John Thame** AIBF, FCPA — Chairman (Non-executive)
Member of Audit Committee
Member of Remuneration & Nomination Committee

Mr John Thame 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 is Chairman of St George Bank Limited and a director of Reckon Limited.

**Frank Wolf** PhD, BA Hons — Deputy Chairman (Executive)

Dr Frank Wolf 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 $2 billion worth of property related transactions, corporate acquisitions and divestments and has financed specialist property-based assets in retirement and hospitality sectors. Dr Wolf is the Chairman of FSP Group Pty Limited and a Director of financial planning groups Financial Services Partners Pty Limited, Vector Financial Services Limited and Kingston Capital Limited as well as of HGL Limited, a diversified publicly listed investment company.

# DIRECTORS' REPORT
**30 JUNE 2005**

**INFORMATION ON DIRECTORS AND OFFICERS continued**

**David Bastian** CPA — Managing Director

Mr David Bastian has almost 40 years experience in the financial services industry, in particular in the packaging of commercial, retail and residential property projects. He was 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 also a director of FSP Group Pty Limited and financial planning groups Vector Financial Services Limited and Kingston Capital Limited.

**Dennis Bluth**
LLM, LLB, BA

Non-executive Director
Chairman of Credit Committee
Chairman of Due Diligence Committee
Member of Audit Committee
Member of Remuneration & Nomination Committee

Mr Dennis Bluth holds Bachelor of Arts, Bachelor of Law and Masters of Law degrees and has practised as a solicitor for over 25 years, principally in the area of property law. Mr Bluth is a partner with Abbott Tout Solicitors of Sydney, Canberra and Brisbane and is a member of a number of Law Society and Law Council Committees. He was formerly a director of Godfrey Pembroke Financial Services Limited.

**Phillip Green** LLB, BCom — Non-executive Director

Mr Phillip Green is Managing Director of Babcock & Brown Limited. Mr Green has over 25 years experience in corporate finance specialising in taxation and structured domestic and international corporate acquisitions. He is also a director of a number of companies including Chairman of Babcock & Brown Infrastructure Limited, Babcock & Brown Environmental Investments Limited and of the responsible entity of the MTM Entertainment Trust, and is a director of Babcock & Brown Capital Limited, Everest Babcock & Brown Alternative Investments, Thakral Holdings Limited, the trustee of the Babcock & Brown Japan Property Trust, Tourism Asset Holdings Limited, FSP Group Pty Limited and Prime Infrastructure Management Limited. Mr Green holds Bachelor of Commerce and Bachelor of Law degrees and qualified as a Chartered Accountant.

**Malcolm Irving** AM
FCPA, FSIA, BCom,
Hon DLitt

Non-executive Director
Chairman of Audit Committee
Chairman of Remuneration & Nomination Committee

Mr Malcolm Irving has over 40 years experience in company management, including 12 years as Managing Director of CIBC Australia Limited. Mr Irving is Chairman of Australian Industry Development Corporation, the Australian River Company Limited, Willis Australia Limited Group and Keycorp Limited. He is also a director of O'Connell Street Associates Pty Ltd Group, ADI Limited and Resimac Limited.

**Len Lloyd** FAPI, LREA — Executive Director

Mr Len Lloyd is a licensed Real Estate Agent and a registered Real Estate Valuer. His experience includes the development, management and funding of commercial, retail and residential property. Mr Lloyd joined the Abacus 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 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.

# DIRECTORS' REPORT
**30 JUNE 2005**

## INFORMATION ON DIRECTORS AND OFFICERS continued

**Sean O'Donoghue** BCom, CA, MBA    Company Secretary

Mr Sean O'Donoghue has been the company secretary since joining the Abacus Group in September 2004. Mr O'Donoghue has over 14 years experience in the property and financial services industries having held various senior roles with MLC, Lend Lease Corporation and Commonwealth Bank over that period.

Directors and secretary were in office from the beginning of the financial year until the date of this report unless otherwise stated.

As at the date of this report, the relevant interests of the directors and specified executives in the shares of Abacus Group Holdings Limited were as follows:

Directors:

| | |
|---|---|
| John Thame | 43,000 |
| Frank Wolf | 6,818,046 |
| David Bastian | 7,040,000 |
| Phillip Green | 9,366,930 |
| Malcolm Irving | 24,000 |

The directors are not party to any contract under which the directors may be entitled to a benefit or that confers a right to call for or deliver interests in the Company.

### Employees

The Abacus Property Group employed 44 employees (including directors) as at 30 June 2005 (2004: 41 employees). This includes 10 employees whose salary is fully recoverable from specific properties managed by the Group.

## OTHER DISCLOSURES

Disclosures regarding other information relating to directors is detail in the Directors Report of Abacus Property Group.

## AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, Ernst & Young, and such declaration is shown on page 46.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and adhere to the principles of corporate governance. The Company's Corporate Governance Statement is contained in the Corporate Governance section of the annual report.

# DIRECTORS' REPORT
**30 JUNE 2005**

## ROUNDING

The amounts contained in this report and in the annual financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the consolidated entity under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.
Abacus Group Holdings Limited (ABN 31 080 604 619)

| | |
|---|---|
| John Thame | David J Bastian |
| Chairman | Managing Director |

Sydney, 13 September 2005

# CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
**YEAR ENDED 30 JUNE 2005**

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL PERFORMANCE** | | | | | |
| **REVENUE FROM ORDINARY ACTIVITIES** | 2 | 34,816 | 47,567 | 4,816 | 7,517 |
| Share of net profits of associates and joint ventures accounted for using the equity method | 2 | 1,561 | 4,291 | 9 | 1,050 |
| Depreciation and amortisation expenses | 3 | (1,861) | (1,870) | (1) | (6) |
| Carrying amount of investment properties disposed | | (3,919) | (23,250) | - | - |
| Carrying amount of option investment disposed | | (2,957) | - | - | - |
| Borrowing costs expense | 3 | (15,342) | (18,336) | (8,089) | (10,048) |
| Bad and doubtful debts | 3 | (20) | - | (20) | - |
| Salaries and employee benefits expense | | (5,960) | (4,608) | - | - |
| Other expenses from ordinary activities | 3 | (3,518) | (4,250) | (561) | (611) |
| **PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | 2,800 | (456) | (3,846) | (2,098) |
| Company income tax expense | 4 | (356) | (193) | (356) | (193) |
| **NET PROFIT AFTER TAX** | | 2,444 | (649) | (4,202) | (2,291) |
| Net profit attributable to outside equity interest | | (678) | - | - | - |
| **NET PROFIT ATTRIBUTABLE TO MEMBERS OF ABACUS GROUP HOLDINGS LIMITED** | 20(c) | 1,766 | (649) | (4,202) | (2,291) |
| Net decrease in asset revaluation reserve | 21(a) | (876) | (897) | (500) | (897) |
| Decrease in foreign currency translation reserve | 21(b) | (210) | - | - | - |
| Adjustment resulting from changes in associated entities | 21(c) | (279) | - | - | - |
| **TOTAL REVENUES, EXPENSES, AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS AND RECOGNISED DIRECTLY IN EQUITY** | | (1,365) | (897) | (500) | (897) |
| **TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH MEMBERS AS OWNERS** | | 401 | (1,546) | (4,702) | (3,188) |
| Basic and diluted earnings per share (cents) | 25 | 0.55 | (0.24) | - | - |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**AS AT 30 JUNE 2005**

| | | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **Notes** | **$'000** | $'000 | **$'000** | $'000 |
| **CURRENT ASSETS** | | | | | |
| Cash assets | 22(b) | 2,853 | 961 | - | - |
| Receivables | 6 | 17,826 | 25,827 | 1,024 | 4,627 |
| Investment properties | 10 | 18,624 | 20,921 | - | - |
| Other financial assets | 7 | 41,803 | 18,115 | - | - |
| Other | 8 | 144 | 277 | 33 | 39 |
| **TOTAL CURRENT ASSETS** | | 81,250 | 66,101 | 1,057 | 4,666 |
| | | | | | |
| **NON - CURRENT ASSETS** | | | | | |
| Plant and equipment | 9 | 133 | 171 | - | - |
| Investment properties | 10 | 15,607 | 18,570 | 7,557 | 7,858 |
| Investments accounted for using the equity method | 11 | 13,763 | 8,778 | 8,930 | 7,998 |
| Other financial assets | 12 | 71,180 | 40,672 | 120,887 | 105,892 |
| Deferred tax assets | 4 | 614 | 206 | 614 | 206 |
| Intangible assets | 13 | 30,619 | 32,394 | - | - |
| Other | 14 | 7 | - | - | - |
| **TOTAL NON-CURRENT ASSETS** | | 131,923 | 100,791 | 137,988 | 121,954 |
| | | | | | |
| **TOTAL ASSETS** | | 213,173 | 166,892 | 139,045 | 126,620 |
| | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Payables | 15 | 3,485 | 2,500 | 40,741 | 45,551 |
| Current tax liabilities | 4 | 780 | (123) | 780 | (123) |
| Interest bearing liabilities | 16 | 3,100 | 14,135 | - | - |
| Provisions | 17 | 196 | 293 | - | - |
| **TOTAL CURRENT LIABILITIES** | | 7,561 | 16,805 | 41,521 | 45,428 |
| | | | | | |
| **NON-CURRENT LIABILITIES** | | | | | |
| Interest bearing liabilities | 18 | 181,912 | 134,110 | 84,968 | 69,314 |
| Provisions | 19 | 505 | 397 | - | - |
| **TOTAL NON-CURRENT LIABILITIES** | | 182,417 | 134,507 | 84,968 | 69,314 |
| | | | | | |
| **TOTAL LIABILITIES** | | 189,978 | 151,312 | 126,489 | 114,742 |
| | | | | | |
| **NET ASSETS** | | 23,195 | 15,580 | 12,556 | 11,878 |
| | | | | | |
| **EQUITY** | | | | | |
| Contributed equity | 20 | 12,043 | 6,662 | 12,043 | 6,662 |
| Reserves | 21(a) (b) | 220 | 1,653 | 805 | 1,653 |
| Retained earnings/(accumulated losses) | 21(c) | 9,099 | 7,265 | (292) | 3,563 |
| Total parent interest in equity | | 21,362 | 15,580 | 12,556 | 11,878 |
| Total outside equity interest | | 1,833 | - | - | - |
| **TOTAL EQUITY** | | 23,195 | 15,580 | 12,556 | 11,878 |

## CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2005

| | Notes | Jun-05 $'000 | Jun-04 $'000 | Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Income receipts | | 11,380 | 18,527 | 2,173 | 1,599 |
| Interest received | | 205 | 4,119 | 1 | 3 |
| Distributions received | | 300 | 380 | 276 | 380 |
| Income tax expense paid | | 139 | (3,574) | 139 | (3,574) |
| Audit fees | | (73) | (81) | (16) | (48) |
| Custodian's fee paid | | (4) | - | - | - |
| Borrowing costs | | (337) | (740) | - | - |
| Operating payments | | (8,722) | (8,995) | (472) | (563) |
| **NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES** | 22(a) | 2,888 | 9,636 | 2,101 | (2,203) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Payments for investments | | (135,728) | (107,158) | (15,780) | (8,444) |
| Proceeds from sale of investments | | 85,271 | 80,882 | 733 | 1,500 |
| Consolidation of controlled entities | | 5,410 | - | - | - |
| Purchase of a subsidiary | | (34) | - | - | - |
| Purchase of plant and equipment | | (27) | - | - | - |
| Purchase of investment properties | | (4,701) | (12,743) | - | - |
| Disposal of investment properties | | 17,474 | 13,779 | - | - |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | (32,335) | (25,240) | (15,047) | (6,944) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of shares | | 5,035 | - | 5,381 | - |
| Repayments of borrowings | | (131,870) | (128,180) | (22,849) | (41,885) |
| Proceeds from borrowings | | 158,174 | 139,099 | 30,414 | 50,945 |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | 31,339 | 10,919 | 12,946 | 9,060 |
| **NET INCREASE/(DECREASE) IN CASH HELD** | | 1,892 | (4,685) | - | (87) |
| Add opening cash brought forward | | 961 | 5,646 | - | 87 |
| **CLOSING CASH CARRIED FORWARD** | 22(b) | 2,853 | 961 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The financial report is a general–purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention except for investment properties, investments in listed securities and option investments which are carried at fair value, and for investments in joint ventures which are equity accounted.

The accounting policies adopted are consistent with those of the previous year.

### (b) Principles of consolidation

The consolidated financial statements include the financial statements of Abacus Group Holdings Limited (AGHL) and its controlled entities referred to collectively throughout these financial statements as the "consolidated entity" or the "Company".

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting polices that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### (c) Dividends

A provision for dividend or distribution is recognised in the Statement of Financial Position if the provision has been declared, determined or publicly recommended prior to balance date.

### (d) Cash and cash equivalents

Cash on hand and in banks are stated at nominal value.

For the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days.

### (e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

### (f) Investment properties

*Cost and valuation*

Land and buildings are considered to have the function of an investment and are therefore regarded as a composite asset and are referred to in these accounts as "investment properties". Accounting Standard AASB 1021 "Depreciation" does not require investment properties to be depreciated. Accordingly, the buildings and components thereof are carried at fair value and are not depreciated. However, investment properties are depreciated for tax purposes prior to the distribution of any taxable income to members.

Independent valuations of investment properties are obtained at intervals of not more than three years from suitably qualified property valuers. Such valuations are reflected in the financial statements of the consolidated entity. Notwithstanding, the directors assess the carrying value of each investment property at each reporting period to ensure its carrying value does not materially differ from its fair value. Where necessary, the investment property is revalued to reflect its fair value being the amounts which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date.

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, and during development includes financing charges and related professional fees incurred.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### (g) Investments

Listed shares and option investments held for trading are carried at net market value. The net market value of listed ventures is determined by reference to the last available sales price of the recently as quoted on the relevant exchange on the day of valuation.

Investments in associates and joint ventures are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

All other non-current investments are carried at the lower of cost and recoverable amount.

### (h) Plant and equipment

*Cost and valuation*

All classes of plant and equipment are measured at cost.

*Depreciation*

Depreciation is provided on a straight-line basis on all plant and equipment.

| Major depreciation periods are: | Jun-05 | Jun-04 |
|---|---|---|
| Plant and equipment | 5-15 years | 5-15 years |

### (i) Equity accounted investments

Interest in the joint venture operation is recognised by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

Interest in the joint venture partnership is carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(j) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight-line basis over the period during which benefits are expected to be received. Goodwill is amortised over 20 years.

**(k) Payables**

Payables represent liabilities to trade and other creditors for goods and services provided to the consolidated entity, whether or not billed, and are unpaid as at the end of the financial year. The amounts are non-interest bearing and are normally settled on 30 day terms.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**(l) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

**(m) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity.

Any transaction costs arising on the issue of the shares are recognised directly in equity as a reduction of the proceeds received.

**(n) Foreign currency translation**

Both the functional and presentation currency of the Company is Australian dollars ($).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

The functional currency of the overseas associated entities is pound sterling (£).

As at the reporting date the investments in overseas associated entities are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date. The exchange differences are taken directly to a separate component of equity.

On disposal of investments in overseas associated entities, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

**(o) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

*Operating leases*

The rental income from operating leases is recognised in accordance with the terms of the lease agreements and other constituent documents.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

### (o) Revenue recognition - continued

*Investment Income*

Revenue from lending or other investment activities is recognised in accordance with the terms set out in the mortgage or loan documentation and other related agreements.

*Revenue from the sale of investment properties*

Revenue from sale of investment properties is recognised on exchange of unconditional contract of sale.

*Net increment in market value of investments*

Changes in the net market value of investments are recognised as revenue or expense in determining the net profit for the year.

*Fees*

Revenue from fees is recognised in accordance with the terms and conditions of the agreements.

*Interest*

Control of the right to receive the interest payment.

*Dividends and distributions*

Control of the right to receive the dividend and distribution payment.

### (p) Leasing Incentives

Lease incentives in the form of up-front payments, contributions to certain lessees' costs, relocation costs and fitouts that are offered in relation to the ongoing operation of the property are recognised as an asset and amortised over the period to which the lease relates.

Incentives provided to lessees in the form of lessor-paid fitouts and improvements that remain assets of the lessor, for example by becoming part of the structure of the property which is retained beyond the lease term, are capitalised to the carrying value of the property.

### (q) Taxes

*Company income taxes*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

*Goods and Services Tax (GST)*

Revenue derived and expenses incurred by the consolidated entity are recognised net of any amount of GST that is payable to or can be recovered from the Australia Taxation Office (ATO). Amounts recognised as receivables and payables at balance date include the amount of GST recoverable or payable.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**(r) Employee entitlements**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at amounts expected to be paid when liabilities are settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave, and other leave entitlements; and
- other types of employee entitlements

are recognised against profits on a net basis in their respective categories.

**(s) Derivative financial instruments**

*Interest rate swaps*

The consolidated entity enters into interest rate swap agreements that are used to convert the variable interest rate of its short-term borrowings to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

It is the consolidated entity's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

*Leasing fees*

Costs that are directly associated with negotiating and executing the ongoing renewal of tenant lease agreements (including concessions, legal fees and costs of preparing and processing documentation for new leases) are delivered and analyses over the in preparation to the residual revenue recognised in end of financial year.

**(t) Leasing incentives**

Lease incentives offered while property is under development are capitalised to the carrying value of the property.

Lease incentives in the form of up-front payments, contributions to certain lessees' costs, relocation costs and fitouts offered in relation to the ongoing operation of the property are recognised as an asset and amortised over the period to which the lease relates.

Incentives provided to lessees in the form of lessor-paid fitouts and improvements that remain assets of the lessor by becoming part of the structure of the property which is retained beyond the lease term, are capitalised to the carrying value of the property.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### (u) Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of shares on issue at the end of the year.

### (v) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
|---|---|---|---|---|
| | **$'000** | $'000 | **$'000** | $'000 |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | | |
| **Revenue from operating activities** | | | | |
| Property rental income | 2,519 | 2,907 | 535 | 557 |
| Interest income from mortgage investments | 6,650 | 5,550 | - | - |
| Fee income from mortgage investments | 280 | 150 | - | - |
| Revenue from sale of investment properties | 6,436 | 29,368 | - | - |
| Revenue from sale of 50% interest in options | 5,000 | - | - | - |
| Property management fees | 922 | 721 | - | - |
| Fund management fees | 3,699 | 2,429 | - | - |
| Consulting and other fees | 5,662 | 3,020 | 532 | (19) |
| **Total revenue from operating activities** | **31,168** | **44,145** | **1,067** | **538** |
| **Revenue from non-operating activities** | | | | |
| Distributions from investments in units | 505 | 3,148 | 3,748 | 6,976 |
| Gains on disposal of investments in units | 770 | - | - | - |
| Change in net market value of investments | 2,167 | - | - | - |
| Bank interest | 206 | 274 | 1 | 3 |
| Total revenue from non-operating activities | 3,648 | 3,422 | 3,749 | 6,979 |
| **Total revenue from ordinary activities** | 34,816 | 47,567 | 4,816 | 7,517 |
| **Share of net profits of joint ventures and associates accounted for using the equity method** | | | | |
| Share of profits of joint ventures and associates | 1,561 | 4,291 | 9 | 1,050 |
| **Gains** | | | | |
| Net gains on disposal of investment properties | 2,198 | 5,106 | - | - |
| Net gains on disposal of option investment | 2,033 | - | - | - |
| Total gains from sale of investments | 4,231 | 5,106 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **3. EXPENSES** | | | | | |
| Depreciation of non-current assets | | | | | |
| Plant and equipment | | 48 | 49 | - | - |
| Total depreciation of non-current assets | | 48 | 49 | - | - |
| Amortisation of non-current assets | | | | | |
| Finance costs | | 20 | 19 | 1 | 6 |
| Goodwill | | 1,775 | 1,775 | - | - |
| Leasehold alterations | | 2 | 11 | - | - |
| Software | | 16 | 16 | - | - |
| Total amortisation of non-current assets | | 1,813 | 1,821 | 1 | 6 |
| **Total depreciation and amortisation expenses** | | **1,861** | **1,870** | **1** | **6** |
| Borrowing costs expensed | | | | | |
| Interest expense | | 15,342 | 18,336 | 8,089 | 10,048 |
| **Total borrowing costs expensed** | | **15,342** | **18,336** | **8,089** | **10,048** |
| **Bad and doubtful debts** | | **20** | **-** | **20** | **-** |
| Other expenses | | | | | |
| Property outgoings | | 957 | 1,196 | 102 | 103 |
| Expenses on sales of invest. properties | | 329 | 1,012 | - | - |
| Management fees | | - | - | 36 | 36 |
| Auditor's remuneration | | 144 | 67 | 77 | 40 |
| Custody fees | | 5 | - | - | - |
| Registry maintenance costs | | 111 | 111 | 105 | 111 |
| Rent | | 314 | 268 | - | - |
| Other | | 1,658 | 1,596 | 241 | 321 |
| **Other expenses from ordinary activities** | | 3,518 | 4,250 | 561 | 611 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |

## 4. INCOME TAX

The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:

| | CONSOLIDATED Jun-05 | CONSOLIDATED Jun-04 | PARENT ENTITY Jun-05 | PARENT ENTITY Jun-04 |
|---|---|---|---|---|
| Net profit from ordinary activities before income tax | 2,800 | (456) | (3,846) | (2,098) |
| Associates' net profit from ordinary activities | - | - | 6,646 | 1,642 |
| Net profit attributable to a partly owned trust | (3,219) | - | (3,219) | - |
| **Profit/(loss) from ordinary activities before income tax** | **(419)** | **(456)** | **(419)** | **(456)** |
| | | | | |
| **Prima facie tax on profit/(loss) from ordinary activities** | **(126)** | **(137)** | **(126)** | **(137)** |
| Tax effect of permanent differences | | | | |
| Capital expenses | - | (79) | - | (79) |
| Depreciation | (56) | (45) | (56) | (45) |
| Amortisation of intangible assets | 533 | 533 | 533 | 533 |
| Non-assessable capital gain | - | 273 | - | 273 |
| Other items (net) | 5 | (352) | 5 | (352) |
| **Income tax expense attributable to ordinary activities** | **356** | **193** | **356** | **193** |
| | | | | |
| **Deferred tax assets and liabilities** | | | | |
| Current tax payable | 6 | (144) | 6 | (144) |
| Provision for deferred income tax - current | 774 | 21 | 774 | 21 |
| Total current | 780 | (123) | 780 | (123) |
| Future income tax benefit - non-current | 614 | 206 | 614 | 206 |

### Tax consolidation

Effective 1 July 2002, for purposes of income taxation, Abacus Group Holdings Limited and its 100% owned subsidiaries formed a tax consolidation group. Members of the group entered into a tax sharing agreement providing for allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date the possibility of default is remote. The head entity of the tax consolidated group is Abacus Group Holdings Limited.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | Jun-05 | Jun-04 | Jun-05 | Jun-04 |
| | | $'000 | $'000 | $'000 | $'000 |
| **5. DIVIDENDS PAID OR PROVIDED FOR ON SHARES** | | | | | |
| **(a) Dividends** | | | | | |
| There were no dividends paid or payable during the year. Distributions were paid from Abacus Trust. | | | | | |
| **(b) Franking credit balance** | | | | | |
| The amount of franking credits available for the subsequent financial year are: | | | | | |
| - franking account balance as at the end of the financial year at 30% | | 5,584 | 5,708 | 5,584 | 5,708 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year | | 6 | - | 6 | - |
| | | 5,590 | 5,708 | 5,590 | 5,708 |

| | Notes | CONSOLIDATED Jun-05 | CONSOLIDATED Jun-04 | PARENT ENTITY Jun-05 | PARENT ENTITY Jun-04 |
|---|---|---|---|---|---|
| **6. RECEIVABLES** | | | | | |
| Trade debtors | (i) | 880 | 6,776 | 740 | 4,540 |
| Property sales receivable | | 2,370 | 13,901 | - | - |
| Short-term deposits | (ii) | 132 | 132 | - | - |
| Other debtors | | 5,402 | 4,500 | 9 | 87 |
| Related party receivables | (iii) | 9,042 | 518 | 275 | - |
| **Total receivables** | | 17,826 | 25,827 | 1,024 | 4,627 |

**(a) Terms and conditions**

(i) Trade and other debtors are non-interest bearing and generally on 30 day terms.

(ii) Short-term deposits have an average maturity of 180 days at a fixed interest rate which has averaged 5.13% for the year (2004: 5.15%).

(iii) Related party receivables are non-interest bearing and generally on 30 day terms.

| | Notes | CONSOLIDATED Jun-05 | CONSOLIDATED Jun-04 | PARENT ENTITY Jun-05 | PARENT ENTITY Jun-04 |
|---|---|---|---|---|---|
| **7. OTHER FINANCIAL ASSETS (CURRENT)** | | | | | |
| Investments in mortgage loans - secured | (a) | 41,803 | 18,115 | - | - |
| **Total other financial assets** | | 41,803 | 18,115 | - | - |

(a) Mortgages are secured by real property assets. Repayment dates are on or before 30 June 2005.

Weighted average interest rate at 30 June 2005 was 14.56% pa.

| | Notes | CONSOLIDATED Jun-05 | CONSOLIDATED Jun-04 | PARENT ENTITY Jun-05 | PARENT ENTITY Jun-04 |
|---|---|---|---|---|---|
| **8. OTHER CURRENT ASSETS** | | | | | |
| Refundable deposits | | 2 | - | - | - |
| Prepayments | | 142 | 277 | 33 | 39 |
| **Total other current assets** | | 144 | 277 | 33 | 39 |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **9. PLANT AND EQUIPMENT** | | | | | |
| Plant and equipment | | | | | |
| At cost | | 560 | 536 | - | - |
| Accumulated depreciation and amortisation | | (427) | (365) | - | - |
| **Total written down amount** | | **133** | **171** | **-** | **-** |
| **Reconciliations** | | | | | |
| Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year. | | | | | |
| Carrying amount at beginning of the financial year | | 171 | 177 | - | - |
| Additions | | 36 | 59 | - | - |
| Disposal of motor vehicle | | (10) | - | - | - |
| Depreciation and amortisation expense | | (64) | (65) | - | - |
| **Carrying amount at end of the financial year** | | **133** | **171** | **-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 10. INVESTMENT PROPERTIES

| Property | Acquisition date | Cost including all additions $'000 | Independent valuation date | Independent valuation $'000 | Consolidated value note (a) Jun-05 $'000 | Consolidated value note (a) Jun-04 $'000 |
|---|---|---|---|---|---|---|
| **(a) Current:** | | | | | | |
| 109 Pitt Street, Sydney, NSW | 22-Jun-99 | 17,622 | | | 18,624 | 20,921 |
| (see note (b) below) | | | | | | |
| **(b) Non-Current:** | | | | | | |
| 244 Liverpool Road, Ashfield, NSW (i) | 26-Mar-98 | 2,507 | | | 2,507 | 2,507 |
| 252 Liverpool Road, Ashfield, NSW (i) | 2-Mar-00 | 1,107 | | | 1,107 | 1,107 |
| 254 Liverpool Road, Ashfield, NSW (i) | 31-Aug-01 | 2,662 | | | 2,662 | 2,662 |
| 256 Liverpool Road, Ashfield, NSW (i) | 29-Sep-98 | 820 | | | 820 | 820 |
| Project development costs | | 657 | | | 657 | 458 |
| Property Revaluation | | | | | | |
| - 244/256 Liverpool Rd | | | | | (196) | 304 |
| **Properties owned by parent entity** | | 7,753 | 30-Jun-05 | 6,900 | 7,557 | 7,858 |
| Hornsby Crescent, Hornsby (c) | | | | | - | 5,557 |
| 4-8 Jacobs Street, Bankstown (ii) | 2-Dec-02 | 5,147 | 30-Jun-05 | 4,900 | 4,900 | 5,155 |
| Macarthur Avenue, Pinkenba (iii) | 11-Nov-04 | 3,278 | 30-Jun-05 | 3,150 | 3,150 | - |
| **Properties owned by AGHL and its subsidiaries - non-current** | | | | | **15,607** | **18,570** |
| **Total investment properties** | | | | | **34,231** | **39,491** |

(i) As valued by CB Richard Ellis Pty Ltd

(ii) As valued by DTZ Australia

(iii) As valued by Colliers International Consultancy and Valuation Pty Ltd

**Notes:**

(a) The consolidated value at 30 June 2005 includes capital expenditures after the last valuation date.

(b) The property at 109 Pitt Street is currently under refurbishment and has been subdivided into strata units. The retail component and the leasehold interest in the car park were sold in prior financial years while the sale of the commercial units continues at 30 June 2005.

(c) This reflects the 50% interest in the Hornsby joint venture, a residential project, consolidated in the prior year. The joint venture agreement relating to this project was terminated during the year and, accordingly property has been deconsolidated for the year ended 30 June 2005.

(d) The investment properties are used as security over the bank loans (see notes 16 & 18).

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**10. INVESTMENT PROPERTIES continued**

**Reconciliations**

Reconciliation of the carrying amounts of investment properties at the beginning and end of the current and previous financial year:

| | Consolidated value note (a) | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| *Investment properties* | | |
| Carrying amount at beginning | 39,491 | 50,906 |
| Additions | 4,650 | 12,732 |
| Net revaluation decrements | (1,223) | (897) |
| Disposals | (8,687) | (23,250) |
| | 34,231 | 39,491 |

| | Notes | CONSOLIDATED | |
|---|---|---|---|
| | | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 |
| **11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD** | | | |
| Investment in associates | 11(a) | 2,540 | - |
| Investment in joint ventures | 11(b) | 11,223 | 8,778 |
| | | 13,763 | 8,778 |

| **(a) INTEREST IN ASSOCIATES** | **Balance** | **Ownership interest held** | |
|---|---|---|---|
| **Name** | **Date** | **by consolidated entity** | |
| | | **Jun-05** | Jun-04 |
| | | **%** | % |
| Stanright Limited | 30 Jun | 40 | 0 |

*(i) Principal activity*

The principal activity of Stanright Limited is investment in a 50% interest in the leasehold of Grant Thornton House, UK

| | CONSOLIDATED | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| *(ii) Share of associates' profits (losses)* | | |
| Share of associates': | | |
| - net profit before income tax | 6 | - |
| - income tax expense attributable to net profit | - | - |
| Share of associates' net profits | 6 | - |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | CONSOLIDATED | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| **11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued** | | |
| *(iii) Carrying amount of investment in associates* | | |
| Balance at the beginning of financial year | - | - |
| - investments during the year | 2,534 | - |
| - share of associates' net result (1) | 6 | - |
| Carrying amount of investment in associates at the end of the financial year | **2,540** | - |

(1) No amounts have been recognised in this financial statements with respect to the associates'
results as the directors believe that the share of associates' results should be recognised on successful completion of the projects.

| *(iv) Share of associates' assets and liabilities* | | |
|---|---|---|
| Total assets | 12,282 | - |
| Total liabilities | (12,319) | - |
| Net assets | (37) | - |

| **(b) INTEREST IN JOINT VENTURES Name** | **Balance Date** | **Ownership interest held by consolidated entity** Jun- % | Jun-04 % |
|---|---|---|---|
| Abacus Private Equity Fund Neutral Bay | 30-Jun-05 | 50 | 50 |
| 40 Yeo Street Pty Limited | 30-Jun-05 | 50 | 50 |
| Abacus Rosebery Property Trust | 30-Jun-05 | 50 | 50 |
| Abacus Nominees (No 4) Pty Limited | 30-Jun-05 | 50 | 50 |
| Telak Close Pty Limited | 30-Jun-05 | 50 | 50 |
| Willoughby Development Trust | 30-Jun-05 | 50 | 50 |
| Brooklands Motel Mornington Pty Ltd | 30-Jun-05 | - | 50 |
| The Mornington Investment Unit Trust | 30-Jun-05 | - | 50 |
| Corporate Helpers Pty Ltd | 30-Jun-05 | 50 | 50 |
| The Main Street Pakenham Unit Trust | 30-Jun-05 | 50 | 50 |
| Highett Plaza Pty Ltd | 30-Jun-05 | 50 | 50 |
| Highett Plaza Unit Trust | 30-Jun-05 | 50 | 50 |
| Pakenham Valley Pty Ltd | 30-Jun-05 | 50 | 50 |
| Pakenham Valley Unit Trust | 30-Jun-05 | 50 | 50 |
| Highett Apartments Pty Limited | 30-Jun-05 | 50 | 50 |
| The Highett Apartments Unit Trust | 30-Jun-05 | 50 | 50 |

*(i) Principal activities*

The joint ventures acquire and develop commercial and residential investment properties intended for resale.

## NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

| | CONSOLIDATED | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| | **$'000** | $'000 |
| *(ii) Share of joint ventures' profits (losses)* | | |
| Share of joint ventures': | | |
| - net profit before income tax | 1,555 | 4,291 |
| - income tax expense attributable to net profit | - | - |
| Share of joint ventures' net profits | **1,555** | **4,291** |
| *(iii) Carrying amount of investment in joint ventures* | | |
| Balance at the beginning of financial year | 8,778 | 4,504 |
| - share of joint ventures' net result | (387) | 4,291 |
| - investments acquired | 3,932 | 6,572 |
| - investments disposed | (1,100) | (6,589) |
| Carrying amount of investment in joint ventures at the end of the financial year | **11,223** | **8,778** |
| *(iv) Share of joint ventures' assets and liabilities* | | |
| Current assets | 2,355 | 15,380 |
| Non-current assets | 38,256 | 26,259 |
| Current liabilities | (75) | (17,400) |
| Non-current liabilities | (29,313) | (15,461) |
| Net assets | **11,223** | **8,778** |
| *(v) Retained earnings of the Group attributable to associates and joint ventures* | | |
| Balance at the beginning of the financial year | 781 | 782 |
| Share of profits of associates and joint ventures | 1,555 | 4,291 |
| Distribution of profits of associates and joint ventures | (1,942) | (4,292) |
| Balance at the end of the financial year | **394** | **781** |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | Jun-05 | Jun-04 | Jun-05 | Jun-04 |
| | | $'000 | $'000 | $'000 | $'000 |
| **12. OTHER FINANCIAL ASSETS (NON-CURRENT)** | | | | | |
| Investments in mortgage loans - secured | (a) | 39,997 | - | - | - |
| Investments in mortgage loans - unsecured | (b) | 14,567 | 32,042 | 5,746 | - |
| | | 54,564 | 32,042 | 5,746 | - |
| Investments in options - unlisted | | 2,957 | - | - | - |
| Investments in shares - unlisted | | 767 | 6,062 | - | 5,274 |
| Investments in shares - listed | | 12,892 | 2,568 | 12,892 | 2,568 |
| Investments in subsidiaries | (c) | - | - | 102,249 | 98,050 |
| | | **71,180** | **40,672** | **120,887** | **105,892** |

(a) Mortgages are secured by real property assets. Repayment fall between 6 January 2008 and
31 May 2010 at an interest rate of 14% pa.
(b) Repayment dates vary from 6 January 2008 to 12 February 2009 at a weighted average interest rate
of 9.03% pa.

**(c) Interests in subsidiaries**

| **Name** | % of equity interest held by the Company | | Investment | |
|---|---|---|---|---|
| | Jun-05 | Jun-04 | Jun-05 | Jun-04 |
| | % | % | $ | $ |
| **Subsidiaries of the Abacus Group Holdings Limited:** | | | | |
| Abacus Funds Management Limited | 100 | 100 | 38,500 | 38,500 |
| Abacus Financial Planning Limited | 100 | 100 | - | - |
| Abacus Property Income Fund | 100 | 100 | 37,725 | 37,725 |
| Abacus Pitt Street Property Trust | 100 | 100 | 21,477 | 21,825 |
| Abacus Sunbury Pty Ltd | 100 | 100 | - | - |
| Abacus Bankstown Property Trust | 100 | 100 | - | - |
| Abacus Hornsby Pty Limited | 100 | 100 | - | - |
| Abacus Nominee Services Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 2) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 3) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 5) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 7) Pty Limited | 100 | 100 | - | - |
| Abacus Nominees (No 9) Pty Limited | 100 | 100 | - | - |
| Queen Street Development Pty Limited | 100 | 100 | - | - |
| Amiga Pty Limited | 100 | 100 | - | - |
| Frengail Pty Limited | 100 | 100 | - | - |
| Abacus Hobart Growth Trust | 79 | - | 4,376 | - |
| Abacus Storage Funds Management Limited | 100 | - | 171 | - |
| **Total investments in subsidiaries** | | | **102,249** | **98,050** |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **13. INTANGIBLES** | | | | | |
| Goodwill | | 35,500 | 35,500 | - | - |
| Accumulated amortisation | | (4,881) | (3,106) | - | - |
| | | **30,619** | **32,394** | - | - |
| **14. OTHER NON-CURRENT ASSETS** | | | | | |
| Deferred costs | | 64 | - | - | - |
| Less accumulated amortisation | | (57) | - | - | - |
| | | **7** | - | - | - |
| **15. PAYABLES** | | | | | |
| Trade creditors | (i) | 36 | 250 | 42 | - |
| Other creditors | (i) | 59 | 349 | - | - |
| Goods and services tax | | 579 | 58 | 17 | (2) |
| Accrued expenses | | 1,973 | 1,479 | 150 | 63 |
| Related party payables | (ii) | 838 | 364 | - | - |
| Intercompany payables | | - | - | 40,532 | 45,490 |
| | | **3,485** | **2,500** | **40,741** | **45,551** |

(i) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms.
(ii) Related party payables are non-interest bearing and are normally settled on 30 day terms.

| | | | | | |
|---|---|---|---|---|---|
| **16. INTEREST-BEARING LIABILITIES (CURRENT)** | | | | | |
| Borrowings secured by mortgage | | | | | |
| - bank loans | | **3,100** | **14,135** | - | - |

The bank loans are provided by several banks. Interest rates include both floating and fixed, by execution
of swap controls arrangements. The interest rates on debt that has been swapped to on fixed rate
borrowings had a weighted average of 6.65% at year end, while interest on floating rate borrowings is
paid quarterly based on existing swap and yield rates quoted on the day.

The bank loans are secured by a charge over investment properties as described in Note 10.

| | | | | | |
|---|---|---|---|---|---|
| **17. PROVISIONS (CURRENT)** | | | | | |
| Employee entitlements | 24 | 196 | 293 | - | - |
| | | **196** | **293** | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **18. INTEREST-BEARING LIABILITIES (NON - CURRENT)** | | | | | |
| Borrowings secured by mortgage | | | | | |
| - bank loan | (a) | 1,884 | 3,100 | - | - |
| - loan from Abacus Trust | (b) | 180,028 | 131,010 | 84,968 | 69,314 |
| | | **181,912** | **134,110** | **84,968** | **69,314** |

(a) The bank loan is provided by a major bank. The bank loan is on a floating rate arrangement and paid
quarterly based on existing swap and yield rates quoted on the day. The loan is repayable by June 2010
and is secured by a charge over investment properties as described in Note 10.
(b) Loan facilities from related parties have maturity dates of not later than 30 June 2008. Interest is
payable at an interest of 10% pa (2004: 14% pa).

| | Notes | CONSOLIDATED Jun-05 $'000 | CONSOLIDATED Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | PARENT ENTITY Jun-04 $'000 |
|---|---|---|---|---|---|
| **19. PROVISIONS (NON-CURRENT)** | | | | | |
| Employee entitlements | 24 | **505** | **397** | **-** | **-** |
| **20. CONTRIBUTED EQUITY** | | | | | |
| **(a) Issued shares** | | 12,043 | 6,662 | 12,043 | 6,662 |

**(b) Movements in contributed equity for the year**

| | Jun-05 Shares on issue Number '000 | Jun-05 Shares on issue Value $'000 | Jun-04 Shares on issue Number '000 | Jun-04 Shares on issue Value $'000 |
|---|---|---|---|---|
| Balance at the beginning of the financial year | 270,420 | 6,662 | 270,420 | 6,662 |
| Issued during the year | | | | |
| - institutional equity raising | 58,166 | 4,383 | - | - |
| - security purchase plan | 14,250 | 998 | - | - |
| **Balance at the end of the financial year** | 342,836 | 12,043 | 270,420 | 6,662 |

**c. Terms and conditions of contributed equity**

Shareholders have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of shares held.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

## 21. RESERVES AND RETAINED EARNINGS

### (a) Asset revaluation
**(i) Nature and purpose of reserve**
The asset revaluation reserve is used to record increments and decrements in the value of investment properties. The reserve can only be used to pay dividends in limited circumstances.

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **(ii) Movements in reserve** | | | | | |
| Balance at beginning of year | | 1,653 | 3,460 | 1,653 | 3,460 |
| Revaluation decrements on revaluation of investment properties | | (876) | (897) | (500) | (897) |
| Realised revaluation reserve on sale of investment properties | | (347) | (910) | (347) | (910) |
| **Balance at end of the financial year** | | **430** | **1,653** | **806** | **1,653** |

### (b) Foreign currency translation
(i) Nature and purpose of reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the investments overseas.

| | | | | |
|---|---|---|---|---|
| (ii) Movements in reserve | | | | |
| Balance at beginning of the financial year | - | - | - | - |
| Loss on translation of investments in foreign associated entity | (210) | - | - | - |
| Balance at end of the financial year | (210) | - | - | - |
| **Total reserves** | **220** | **1,653** | **806** | **1,653** |

| | | | | |
|---|---|---|---|---|
| **(c) Retained earnings/(accumulated losses)** | | | | |
| Balance at the beginning of the financial year | 7,265 | 7,004 | 3,563 | 4,944 |
| Net profit/(loss) attributable to members of AGHL | 1,766 | (649) | (4,202) | (2,291) |
| Realised reserve on sale of investment properties | 347 | 910 | 347 | 910 |
| Adjustment from changes in associated entities | (279) | - | - | - |
| **Balance at end of the financial year** | **9,099** | **7,265** | **(292)** | **3,563** |

## 22. STATEMENT OF CASH FLOWS

### (a) Reconciliation of the net profit after tax to the net cash flows from operations

| | | | | |
|---|---|---|---|---|
| Net profit | 2,444 | (649) | (4,202) | (2,291) |
| Depreciation of non-current assets | 48 | 49 | - | - |
| Amortisation of non-current assets | 1,813 | 1,821 | 1 | 6 |
| Provision for doubtful debts | 20 | - | - | - |
| Unrealised investment (gain)/ loss | (978) | 19 | (978) | 19 |
| Net gain on sale of non current assets | (4,231) | (5,106) | - | - |
| (Increase)/decrease in other assets | (12,796) | 299 | (1,817) | (6,611) |
| Increase in payables and other liabilities | 16,568 | 13,203 | 9,097 | 6,674 |
| Net cash flow from operating activities | 2,888 | 9,636 | 2,101 | (2,203) |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED Jun-05 $'000 | Jun-04 $'000 | PARENT ENTITY Jun-05 $'000 | Jun-04 $'000 |
|---|---|---|---|---|---|
| **(b) Reconciliation of cash** | | | | | |
| Cash balance comprises: | | | | | |
| Cash assets | | 2,853 | 961 | - | - |
| Closing cash balance | | 2,853 | 961 | - | - |

**(c) Financing facilities available**

At reporting date, the following financing facilities had been negotiated and were available:

| | | | | |
|---|---|---|---|---|
| **Total facilities** | | | | |
| - bank loans | 4,984 | 25,213 | - | - |
| - other | 179,000 | 169,000 | 94,000 | 94,000 |
| | 183,984 | 194,213 | 94,000 | 94,000 |
| **Facilities drawn at reporting date** | | | | |
| - bank loans | 4,984 | 17,235 | - | - |
| - other | 138,250 | 101,862 | 58,940 | 51,374 |
| | 143,234 | 119,097 | 58,940 | 51,374 |
| **Facilities available at reporting date** | | | | |
| - bank loans | - | 7,978 | - | - |
| - other | 40,750 | 67,138 | 35,060 | 42,626 |
| | 40,750 | 75,116 | 35,060 | 42,626 |

**(d) Acquisition of Controlled Entities**

Abacus Property Group acquired 100% ownership of Abacus Storage Funds Management Limited.

The components of the acquisition cost were:

| Entity | Notes | Date Acquired | Consideration $'000 |
|---|---|---|---|
| Abacus Storage Funds Management Limited | | 31-May-05 | 172 |
| Total consideration | | | 172 |
| Net assets of the controlled entities at acquisition date: | | | |
| Cash | | | 138 |
| Receivables | | | 880 |
| Other financial assets | | | 4 |
| Payables | | | (676) |
| Other liabilities/provisions | | | (174) |
| | | | 172 |
| Net cash effect | | | |
| Cash consideration paid | | | (172) |
| Cash included in net assets acquired | | | 138 |
| Cash paid for purchase of controlled entities as reflected in the combined financial report | | | (34) |

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **23. CAPITAL AND EXPENDITURE COMMITMENTS** | | | | | |
| **Joint ventures** | | | | | |
| The consolidated entity has remaining "at call" contributions to the joint venture projects to an aggregate amount of: | | 1,585 | 17,956 | 1,585 | - |
| **Other persons** | | | | | |
| Projected expenditure outlay to complete the refurbishment of the property at 109 Pitt Street, Sydney | | 485 | 1,815 | - | - |
| **24. EMPLOYEE ENTITLEMENTS** | | | | | |
| The aggregate employee entitlement liability is comprised of: | | | | | |
| - provisions (current) | | 196 | 293 | - | - |
| - provisions (non-current) | | 505 | 397 | - | - |
| | | 701 | 690 | - | - |

**25. EARNINGS PER SHARE**

The following reflects the income and share date used in the calculation of basic and diluted earnings per share:

| | **Jun-05** | Jun-04 |
|---|---|---|
| | **$'000** | $'000 |
| Net profit attributable to members | 2,444 | (649) |

| | **Number of Shares** | |
|---|---|---|
| | **Jun-05** | Jun-04 |
| Weighted average number of shares | 321,169 | 270,420 |

**26. SUBSEQUENT EVENTS**

On 10 August 2005, the Group completed a capital raising of $55.0 million and issued approximately 42.6 million securities at $1.29 per security. Of the total $55.0 million capital raised, approximately $3.7 million has been allocated to AGHL.

During August 2005, the Abacus Group Holdings Limited (AGHL) completed the acquisition of the initial portfolio of storage facility assets by the Abacus Storage Fund. To assist with the settlement of assets and to provide short term working capital, AGHL, through an associated entity, advanced approximately $40 million ahead of raising capital from external investors.

Other than as disclosed already in this report, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may effect, AGHL's operations in future financial years, the results of those operations or AGHL's state of affairs in future financial years.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| **27. AUDITORS' REMUNERATION** | | | | | |
| Amounts received or due and receivable by Ernst & Young Australia for: | | | | | |
| - an audit of the financial report of the entity and any other entity in the consolidated entity | | 144,037 | 67,500 | 77,043 | 39,500 |
| | | 144,037 | 67,500 | 77,043 | 39,500 |

## 28. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Details of Specified Directors and Specified Executives

*(i) Specified Directors*

| | |
|---|---|
| Mr John Thame | Chairman (Non-executive) |
| Dr Frank Wolf | Deputy Chairman (Executive) |
| Mr David Bastian | Managing Director |
| Mr Dennis Bluth | Director (Non-executive) |
| Mr Phillip Green | Director (Non-executive) |
| Mr Malcolm Irving | Director (Non-executive) |
| Mr Len Lloyd | Executive Director |

*(ii) Specified Executives*

| | |
|---|---|
| J L'Estrange | General Manager – Property Finance |
| S O'Donoghue | Chief Financial Officer & Company Secretary |
| P Strain | General Manager – Leasing and Administration |
| K Kitchen | General Manager – Distribution |
| C Bibby | General Counsel |

**Remuneration of Non-Executive Directors**

The remuneration policy for Non-Executive Directors seeks to appropriately remunerate them for their time, commitment and responsibilities.

Non-executive directors are paid a directors fee and do not receive any retirement benefits (other than superannuation which is inclusive in the directors fee) or performance related compensation. Where a Non-Executive director serves on the Group's Credit Committee, they receive remuneration for this service in addition to a directors fee. The aggregate pool available for payment of directors fees to Non-Executive Directors of the Group is an amount not to exceed $165,000 (inclusive of superannuation guarantee contributions). This amount was applicable at the time of listing in November 2002.

Given the current approved total Non Executive Directors fee pool has been in force since November 2002, the Directors intend to propose a change to the directors fee pool to incorporate a structure of a base fee together with fees for service on various Board committees. It is intended that security holders will be asked to approve an increase in directors' fees at the next Annual General Meeting of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 28. DIRECTOR AND EXECUTIVE DISCLOSURES continued

### Remuneration of Specified Directors and Senior Executives

#### Executive Employment Contracts

On 1 October 2002, the Group entered into a thirty three month executive employment contract with an Executive Director, F.M Wolf, and the Managing Director, D.J.Bastian. The agreement stipulates the starting base salary, allows for annual review and inflation adjustment and provides for short term incentive payments in addition to the executive's base salary at the discretion of the Board. The agreements expired on 30 June 2005 and new agreements are in the process of being negotiated.

There are no other executive service agreements.

#### Executive pay

The Board's policy on Executive pay is to ensure remuneration is reasonable, competitive, motivating and appropriate for the results delivered. The Remuneration and Nomination Committee takes external advice in its deliberations.

The current remuneration structure has two components, the combination of which comprises the Executive's total remuneration:

- base pay & benefits (fixed); and
- short term incentive (variable "at risk")

There is currently no long term incentive structure or program in place. The total remuneration package seeks to provide an appropriate mix of base salary with short term incentive.

**(i) Base Pay**

Executives are offered a base pay that comprises the fixed component of their total remuneration. Subject to meeting minimum Superannuation Guarantee obligations, Executives are able to nominate the mix between cash and superannuation contributions.

Base salary is set by reference to the Executives position, experience and performance. The Group aims to ensure base salaries are competitive in the market. Base salaries are reviewed annually having regard to individual and Group performance and external market conditions.

The base pay of Executive Directors and senior executives are reviewed and approved by the Remuneration & Nominations Committee.

**(ii) Short Term Incentives**

At the discretion of the Board, executives and senior managers may receive short term incentive payments based on reference to a variety of measures, both financial and non-financial. These measures primarily include Group profitability targets, returns to security holders and certain key performance indicators such as assets under management.

The Board considers that performance linked objectives that have an operational and financial impact focus are best suited to the outcomes desired by security holders. Non-financial measures are also taken into account.

The actual level of short term incentive payments awarded to each Executive at the end of each year is determined by reference to achievement of the targets and the extent to which executives were able to contribute to such achievement.

In awarding short term incentives for the 2006 financial year, the directors intend to make the performance indicators more specific to individuals and their contribution to the Group's results.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 28. DIRECTOR AND EXECUTIVE DISCLOSURES continued

### (d) Remuneration of Directors

The remuneration of Directors for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| J Thame | 66,320 | - | 6,560 | 72,880 |
| D Bluth | 33,320 | - | 3,295 | 36,615 |
| P Green | 26,528 | - | 2,622 | 29,150 |
| M Irving | 29,150 | - | - | 29,150 |
| F Wolf | 551,250 | 400,000 | - | 951,250 |
| D Bastian | 484,540 | 250,000 | 11,585 | 746,125 |
| L Lloyd (1) | 169,500 | 60,000 | 51,000 | 280,500 |
| **Total** | **1,360,608** | **710,000** | **75,062** | **2,145,670** |

(1) L Lloyd is a director of Abacus Group Holdings Limited only.

The remuneration of Directors for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| J Thame | 65,793 | - | 7,087 | 72,880 |
| D Bluth | 30,527 | - | 3,289 | 33,816 |
| P Green | 26,317 | - | 2,835 | 29,152 |
| M Irving | 29,152 | - | - | 29,152 |
| F Wolf | 525,000 | 350,000 | - | 875,000 |
| D Bastian | 461,428 | 250,000 | 11,002 | 722,500 |
| L Lloyd (1) | 150,000 | 20,000 | 60,000 | 230,000 |
| **Total** | **1,288,217** | **620,000** | **84,213** | **1,992,500** |

(1) L Lloyd is a director of Abacus Group Holdings Limited only.

### (e) Remuneration of Specified Executives

The remuneration of Specified Executives for the year ended 30 June 2005 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2005 Total |
|---|---|---|---|---|
| J L'Estrange | 196,914 | 100,000 | 28,086 | 325,000 |
| S O'Donoghue (i) | 188,904 | 65,000 | 12,058 | 265,962 |
| K Kitchen | 194,414 | 56,000 | 11,586 | 262,000 |
| P Strain | 173,414 | 60,000 | 11,586 | 245,000 |
| C Bibby | 158,414 | 30,000 | 11,586 | 200,000 |
| **Total** | **912,060** | **311,000** | **74,902** | **1,297,962** |

(i) Commenced employment in September 2004.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 28. DIRECTOR AND EXECUTIVE DISCLOSURES continued

The remuneration of Specified Executives for the year ended 30 June 2004 is set out below:

| | Salary & Fees | Cash Bonus | Super-annuation | 2004 Total |
|---|---|---|---|---|
| J L'Estrange | 194,293 | 50,000 | 11,002 | 255,295 |
| R Hill | 193,748 | - | 11,002 | 204,750 |
| K Kitchen | 146,498 | 25,000 | 11,002 | 182,500 |
| P Strain | 153,435 | 20,000 | 11,002 | 184,437 |
| C Bibby | 146,498 | 15,000 | 11,002 | 172,500 |
| **Total** | **834,472** | **110,000** | **55,010** | **999,482** |

### (e) Security holdings of Specified Directors and Specified Executives

| Securities held in Abacus Property Group (number) | Balance 1 July 04 | Net Change Other | Balance 30 June 05 |
|---|---|---|---|
| **Specified Directors** | | | |
| J Thame | 35,000 | 8,000 | 43,000 |
| F Wolf | 6,806,046 | 12,000 | 6,818,046 |
| D Bastian | 7,040,000 | - | 7,040,000 |
| P Green | 9,366,930 | - | 9,366,930 |
| M Irving | 20,000 | 4,000 | 24,000 |
| **Specified Executives** | | | |
| P Strain | 10,000 | - | 10,000 |
| K Kitchen | 13,492 | - | 13,492 |
| C Bibby | 4,500 | - | 4,500 |
| **Total** | **23,295,968** | **24,000** | **23,319,968** |

All equity transactions with specified directors and specified executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

### (f) Director transactions

Directors of the consolidated entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances.

During the year ended 30 June 2005 directors received distributions from the controlled entity on their stapled securities in the Abacus Property Group and on their investment in various Trusts managed by Abacus Funds Management Limited as Responsible Entity.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**28. DIRECTOR AND EXECUTIVE DISCLOSURES continued**

### (g) Director-related entity transactions

Abbott Tout was paid $0.45 million (2004: $0.36 million) for legal services involving lease documentation, sales contracts and the provision of corporate advices. A partner in Abbott Tout, Mr Dennis Bluth, is a director of Abacus Funds Management Limited (AFML) and Abacus Group Holdings Limited (AGHL).

During the year FSP Group Pty Limited was paid $0.2 million (2004: $0.3 million) for rental of office premises and for telephone and electricity charges. Dr Wolf, Mr Bastian and Mr Green are directors of Abacus Funds Management Limited, AGHL and FSP Group Pty Limited.

## 29. RELATED PARTY DISCLOSURES

### Ultimate Parent

Abacus Group Holdings Limited is the ultimate parent company of all the controlled entities within the Group. Abacus Group Holdings Limited is stapled to the Abacus Trust to form the Abacus Property Group.

### Wholly owned group transactions

Abacus Funds Management Limited and its subsidiary, Abacus Property Services Pty Limited, received $0.7 million from its parent entity and other members of the AGHL group in consulting and performance fees, and for services related to funds and property management.

### Related party transactions

Loans made by Abacus Trust to AGHL and its subsidiaries amounted to $180.0 million including interest repayable on or before 30 June 2008. Interest is currently charged at 10% per annum (2004: 14%).

In accordance with existing constitutions, management agreements and prospectuses, Abacus Funds Management Limited (Responsible Entity) and its subsidiary Abacus Property Services Pty Limited were paid performance, property and funds management fees during the year by other entities within the Group in the total amount of $2.1 million (2004: $1.3 million).

### Other related parties

Abacus Finance Pty Limited, a subsidiary of AGHL, made loans to Abacus Diversified Income Fund amounting to $7.0 million including interest at 30 June 2005 (2004: $29.6 million). Interest is at 9.07% per annum. Abacus Income Trust paid AGHL and its subsidiaries a total of $4.8 million (2004: $2.2 million) in fees relating to property acquisitions, project and property management, prospectus raising and other services. Abacus Funds Management Limited is the Responsible Entity of Abacus Income Trust.

Abacus Finance Pty Limited, a subsidiary of AGHL, made loans to Abacus Retail Property Trust during the year amounting to $7.5 million including interest at 30 June 2005. Interest is at 9% per annum. Abacus Funds Management Limited is the Trustee of Abacus Retail Property Trust.

Abacus Funds Management Limited received $0.4 million (2004: $0.8 million) in asset management fees and compliance cost recoveries from various trusts where Abacus Funds Management Limited is the Responsible Entity. Abacus Property Services Pty Limited received $0.2 million (2004: $0.6 million) in property management fees and salary recoveries from the same trusts. During the year Abacus Funds Management Limited received $0.9 million (2004: $0.6 million) in management fees from joint ventures in which the Group had interests.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 30. SEGMENT INFORMATION

### Business segment

The consolidated entity operates within three business segments within the property industry, being property rental and sales, other property-based investments and funds management. The property rental and sales operations comprise the leasing and maintenance of commercial, retail and industrial properties and the conversion of commercial properties into commercial strata units intended for sale. The other property-based investments comprise mortgage lending and investment in joint venture activities and in securities of other listed and unlisted property trusts. Funds management comprise property and funds management and other consulting activities. Revenue is derived from property rentals, interest, fees and property sales.

| Business segments | Property Rental & Sales | | Other property-based investments | | Funds Management | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | Jun-05 | Jun-04 | Jun-05 | Jun-04 | Jun-05 | Jun-04 | Jun-05 | Jun-04 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Segment revenue:** | | | | | | | | |
| Revenues and share of net profits from associates and customers outside the consolidated entity | 8,955 | 32,275 | 16,933 | 13,139 | 10,283 | 6,170 | 36,171 | 51,584 |
| Interest revenue | | | | | | | 206 | 274 |
| Total revenue and share of net profit from associates | | | | | | | 36,377 | 51,858 |
| **Segment results:** | | | | | | | | |
| Segment result | 1,189 | 1,481 | 9,322 | 10,984 | 7,425 | 5,141 | 17,936 | 17,606 |
| Interest income | | | | | | | 206 | 274 |
| Income tax | | | | | | | (356) | (193) |
| Borrowing costs | | | | | | | (15,342) | (18,336) |
| Total results | | | | | | | 2,444 | (649) |
| **Segment assets** | 51,450 | 53,029 | 126,618 | 79,598 | 34,491 | 34,059 | 212,559 | 166,686 |
| Future income tax benefit | | | | | | | 614 | 206 |
| | | | | | | | 213,173 | 166,892 |
| **Segment liabilities** | 86,244 | 39,932 | 95,062 | 61,990 | 2,908 | 32,278 | 184,214 | 134,200 |
| Interest-bearing liabilities | | | | | | | 4,984 | 17,234 |
| Tax liabilities | | | | | | | 780 | (122) |
| | | | | | | | 189,978 | 151,312 |
| **Other segment information:** | | | | | | | | |
| Acquisition of controlled entities | - | - | 172 | - | - | - | 172 | - |
| Depreciation and amortisation | 12 | 30 | - | - | 1,849 | 1,840 | 1,861 | 1,870 |
| Non-cash expenses other than depreciation and amortisation | 20 | - | - | - | - | - | 20 | - |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 30. SEGMENT INFORMATION continued

**Segment accounting policies and segment location**

The segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial period, there were no changes in segment accounting policies that had a material effect on the segment information. The consolidated entity operates wholly within Australia except for an investment of approximately $3 million in associated entities in the United Kingdom.

### 31. FINANCIAL INSTRUMENTS

**(a) Interest rate risk exposures**

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

| Financial Instruments | Floating interest rate | Fixed interest rate maturing in: =<1 year | >1 to 5 years | >5 years | Non-interest bearing | Total Carrying Amount | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| **2005** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | |
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 2,853 | - | - | - | - | 2,853 | 5.32% |
| Receivable | - | 132 | - | - | 17,694 | 17,826 | 5.13% |
| Other financial assets | - | 41,803 | 71,180 | - | - | 112,983 | 12.86% |
| Equity investments | - | - | - | - | 13,770 | 13,770 | - |
| | 2,853 | 41,935 | 71,180 | - | 31,464 | 147,432 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 3,485 | 3,485 | - |
| Bank loans | 4,984 | - | - | - | - | 4,984 | 6.45% |
| Interest rate swaps | (11,100) | 8,000 | 3,100 | - | - | - | 5.73% |
| Other loans | - | - | 180,028 | - | - | 180,028 | 11.00% |
| Provisions | - | - | - | - | 1,479 | 1,479 | - |
| | (6,116) | 8,000 | 183,128 | - | 4,964 | 189,976 | |

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 31. FINANCIAL INSTRUMENTS continued

| Financial Instruments 2004 | Floating interest rate $'000 | Fixed interest rate maturing in: =<1 year $'000 | >1 to 5 years $'000 | >5 years $'000 | Non-interest bearing $'000 | Total Carrying Amount $'000 | Weighted average effective interest rate |
|---|---|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | | | |
| Cash at bank | 961 | - | - | - | - | 961 | 5.13% |
| Receivable | - | 132 | - | - | 25,695 | 25,827 | 5.15% |
| Other financial assets | - | 18,115 | 40,672 | - | - | 58,787 | 11.03% |
| Equity investments | - | - | - | - | 8,778 | 8,778 | - |
| | 961 | 18,247 | 40,672 | - | 34,473 | 94,353 | |
| ***Financial Liabilities*** | | | | | | | |
| Payables | - | - | - | - | 2,500 | 2,500 | - |
| Bank loans | 17,235 | - | - | - | - | 17,235 | 6.76% |
| Interest rate swaps | (11,100) | - | 11,100 | - | - | - | 6.71% |
| Other loans | - | - | 131,010 | - | - | 131,010 | 14.11% |
| Provisions | - | - | - | - | 568 | 568 | - |
| | 6,135 | - | 142,110 | - | 3,068 | 151,313 | |

**(b) Credit risk exposures**

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract.

The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

**(c) Net fair value of financial assets and liabilities**

**Recognised financial instruments**

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short term to maturity.

*Trade receivables and trade creditors:* The carrying amount approximates fair value.

*Short-term borrowings:* The carrying amount approximates fair value because of their short term to maturity.

*Long-term bank borrowings and debentures:* The fair values of long-term borrowings are estimated by discounting expected cash flows at the interest rates currently offered to the consolidated entity for debt of the same remaining maturity and security plus costs expected to be incurred were the liability settled.

*Non-current investments/securities:* A reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 31. FINANCIAL INSTRUMENTS continued

All other financial assets and liabilities have been recognised at the balance date at their net fair values, except for the following:

**Net Fair Values**

| | Total carrying amount as per the statement of financial position | | Aggregate net fair value | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Financial liabilities*** | | | | |
| Bank loans | 4,984 | 17,235 | 4,927 | 17,199 |
| Interest rate swaps | n/a | n/a | - | (15) |

n/a Not applicable since financial instruments are not recognised in the financial statements.

**Unrecognised financial instruments**

*Interest rate swap agreements:* The net fair value of interest rate swap contracts is determined as the difference in present value of the future interest cash flows.

### 32. LEASES

All the properties owned by the combined entity are leased to third parties under operating leases at 30 June 2005. Lease terms vary between tenants.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | **Jun-05** | Jun-04 | **Jun-05** | Jun-04 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Future minimum rental revenues under non-cancellable operating leases at 30 June 2005 are as follows: | | | | |
| - not later than one year | 1,346 | 1,990 | 368 | 403 |
| - later than one year and not later than five years | 3,478 | 3,678 | 503 | 299 |
| - later than five years | 1,108 | 2,532 | - | - |
| Total | 5,932 | 8,200 | 871 | 702 |

### 33. COMMITMENTS AND CONTINGENCIES

The company has commitments to pay the balance of contracted refurbishment works in 109 Pitt Street to an aggregate amount of $0.5 million (June 2004: $1.8 million), the remaining "at call" contributions to joint ventures to an aggregate amount of $1.6 million (June 2004: $18 million) and the unused portion of the loan facilities to outside parties in the amount of $1.6 million. In addition, the company has provided guarantees to outside parties, including banks as additional security for Group and related entity bank loans, for an aggregate amount of $60.6 million.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

## 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS)

Abacus Group Holdings Limited has identified key areas impacted by AIFRS and is currently in the final stages of quantifying those impacts.

The opening AIFRS balance sheet as at 1 July 2004 has been completed and will form the basis of accounting under AIFRS in the future and is required for the preparation of Abacus Group Holdings Limited's first fully compliant financial statements for the half year ending 31 December 2005.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS including the estimated financial impacts to total equity as at transition date and 30 June 2005 and on net profit for the year ended 30 June 2005. The actual effects of transition to International Financial Reporting Standards (IFRS) may differ from these estimates when implementation is finalised due to (a) ongoing work being undertaken on AIFRS; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted industry practice in the interpretation and application of AIFRS and UIG Interpretations.

### (a) Reconciliation of equity as presented under AGAAP to that under AIFRS

| | Notes | CONSOLIDATED | | PARENT ENTIY | |
|---|---|---|---|---|---|
| | | **30-Jun-05** | 1-Jul-04 | **30-Jun-05** | 1-Jul-04 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| Total equity under AGAAP | | 23,195 | 15,580 | 12,556 | 11,878 |
| **Adjustment to retained earnings (net of tax)** | | | | | |
| Write-back of goodwill amortisation | (i) | 1,775 | - | - | - |
| Transfer of asset revaluation to retained earnings | (ii) | (430) | (1,653) | (806) | (1,653) |
| Transfer of asset revaluation to retained earnings | (ii) | 430 | 1,653 | 806 | 1,653 |
| Amortisation of lease incentives | (iii) | 16 | - | - | - |
| Reversal of profits on sales settled after year end | (iv) | (1,600) | (2,993) | - | - |
| Adjustment to income tax expense | (v) | 133 | 807 | 133 | 807 |
| **Total equity under AIFRS** | | 23,519 | 13,394 | 12,689 | 12,685 |

(i) Under AASB 3 *Business Combinations* goodwill would not be amortised but would be subject to annual (or more frequent) impairment testing under AASB 136 *Impairment of Assets*. Currently, the company amortises goodwill over its useful life estimated at 20 years. The company has elected not to apply the Standard retrospectively in accordance with the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and hence the goodwill amortised in prior years would not be written back as at the date of transition.

(ii) Under AASB 140 *Investment Property*, if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The company intends to value its investment properties at fair value adhering to the standard.

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(iii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The company currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued

(iv) Under AASB 118 *Revenue* the revenue recognition criteria in the sale of goods include requirements that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and that the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Sale of investment properties is currently recognised as income on exchange of unconditional contract of sale. AASB 118 will effectively delay recognition of revenue to settlement date.

(v) Under AASB 112 *Income Taxes*, income tax will be calculated using the balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying amount of an asset or a liability and its tax base. This results in the recognition of a deferred tax liability in relation to the company's revalued assets.

The above changes will result in an increase in deferred tax liability as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **Jun-05** | 1-Jul-04 |
| | **$'000** | $'000 |
| Retained earnings (i-v) | (133) | 807 |
| Reserves | - | - |
| Increase/(decrease) in tax deferred liability | **(133)** | **807** |

### (b) Reconciliation of net profit under AGAAP to that under AIFRS

| **YEAR ENDED 30 JUNE 2005** | | **CONSOLIDATED** | **PARENT ENTITY** |
|---|---|---|---|
| | | **30-Jun-05** | 30-Jun-05 |
| | **Notes** | **$'000** | $'000 |
| **Net profit reported under AGAAP** | | 2,444 | **(4,202)** |
| Write-back of goodwill amortisation | (i) | 1,775 | - |
| Amortisation of lease incentives | (ii) | 16 | - |
| Reversal of profits on sales settled after year end | (iii) | (1,600) | - |
| Revaluation of investment properties | (iv) | (876) | (500) |
| Adjustment to income tax expense | (v) | 133 | 133 |
| **Net profit under AIFRS** | | 1,892 | **(4,569)** |

(i) Under AASB 3 *Business Combinations* goodwill would not be amortised but would be subject to annual (or more frequent) impairment testing under AASB 136 *Impairment of Assets*. Currently, the Group amortises goodwill over its useful life estimated at 20 years. The Group has elected not to apply the Standard retrospectively in accordance with the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and hence only the goodwill amortised during the current year would be written back. UIG 1013 likewise prohibits the election to apply the Standard retrospectively for listed entities whose securities are stapled.

(ii) Under AASB 117 *Leases* and UIG Interpretation 115 lease incentives irrespective of nature or form or timing of payments should be amortised over the lease term. The Group currently amortises lease incentives with the exception of rent-free and rental abatements which when recognised and amortised would increase income in earlier periods.

# NOTES TO THE FINANCIAL STATEMENTS

**30 June 2005**

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued**

(iii) Under AASB 118 *Revenue* the revenue recognition criteria in the sale of goods include requirements that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and that the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Sale of investment properties is currently recognised as income on exchange of unconditional contract of sale. Profits derived from sales settled after 30 June 2005 would have to be adjusted and recognised on settlement to occur in the following year.

(iv) Under AASB 140 *Investment Property,* if investment properties are measured at fair value, gains or losses arising from changes in fair value will be recognised in profit or loss for the period in which they arise. The company intends to value its investment properties at fair value adhering to the standard.

Under the current accounting policy, when investment properties are revalued to fair value, changes in fair value are recognised in the asset revaluation reserve.

(v) Under AASB 112 *Income Taxes,* income tax will be calculated using the balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying amount of an asset or a liability and its tax base. This results in the recognition of a deferred tax liability in relation to the company's revalued assets.

**(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005**

No material impacts to the cash flows have been identified on transition to AIFRS.

**(d) Impact of Other Standards**

(i) Under AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement,* financial assets will be classified as either held for trading, held-to-maturity, available for sale or loans and receivables. Depending on the classification, assets will be measured at fair value or amortised cost. Loans and receivables originated by the entity and not held for trading will be accounted for at amortised cost using the effective interest method. The company also has derivative instruments in the form of interest rate swaps which under the new Standards have to be taken up in the balance sheet at fair value. At 1 July 2005 the interest rate swaps had nil value.

Management have decided to apply the exemption provided in AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

(ii) Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The Group's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows. The Group's assets including goodwill were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. This resulted in no impairment losses during the year.

# NOTES TO THE FINANCIAL STATEMENTS
**30 June 2005**

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS) continued

(iii) Under UIG Interpretation 1013 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* at the date of transition, one of the combining entities shall be identified as the parent for the purpose of preparing consolidated financial reports by combining the financial reports of the entities whose securities are stapled. Abacus Property Group has identified Abacus Group Holdings Limited as the parent entity and the consolidated financial reports beginning from half year ending 31 December 2005 will be under the Company's name. The combined balance sheet shall present the combined equity of the stapled securities as equity without identifying any minority interests. AASB 127 *Consolidated and Separate Financial Statements* will be applied subsequently in preparing the Group's financial reports.

(iv) The financial impact of AIFRS is not expected to affect the distribution policy of the Company. It has been the policy of the Company to align distribution to earned income as closely as possible so that in future, in determining distributable income any material non-cash income or expense items will be excluded in the calculation of distributable profits. The Company will specifically account for non-cash income or expense items arising from straight-lining of fixed rental increases, amortisation of lease incentives, revaluation movements, mark to market valuation of its derivatives and the effects of any other amortisation of assets.

A reconciliation of net profit after tax to distributable profits will be a requirement prior to providing for or declaring any distribution. In similar manner, retained earnings will be examined and for internal purposes may have to be categorised to ensure that distributions are paid from distributable profits.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Abacus Group Holdings Limited, we state that:

(1) In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2005.

On behalf of the Board

John Thame
Chairman

David J Bastian
Managing Director

Sydney, 13 September 2005

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Exchange 10172

**Auditor's Independence Declaration to the Directors of Abacus Group Holdings Limited**

In relation to our audit of the financial report of Abacus Group Holdings Limited for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney
15 September 2005

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## Independent audit report to members of Abacus Group Holdings Limited

### Scope

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Abacus Group Holdings Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report and the additional disclosures that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on them to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report present fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

ERNST & YOUNG

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report

**Audit opinion**

In our opinion, the financial report of Abacus Group Holdings Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Abacus Group Holdings Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney
13 September 2005