

## **CHAIRMAN'S ADDRESS**

### **REVIEW OF OPERATIONS**

The Global financial crisis has adversely impacted the results of Eumundi Group, as indeed it has the vast majority of companies, listed and unlisted, in Australia and internationally. At the time of my last address to you, the market had turned sharply, and like many property based companies we had begun to feel the combined impact of tightened capital access and declining investment property asset values.

While initially taken by surprise by the timing and magnitude of the economic impact of the global financial crisis, your Board considered that Eumundi's conservative strategy would be critical to our ability to weather the worst of the financial storm. We were nearing completion of the Bribie Harbour Shopping Village redevelopment and the timing of the downturn could not have been worse for the success of that centre. Retail leasing interest waned quickly, driven by the erosion of business and consumer confidence. It has taken almost a year for the market to regain sufficient confidence for leasing activity to resume, albeit at a lower level.

As the financial storm hit, Eumundi responded to the change in market conditions quickly by focussing on the success and stability of existing assets and reducing risk by securing long term revenue stream growth.

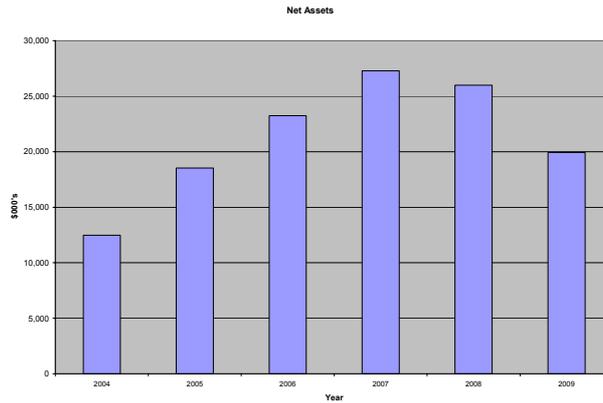
While controlling discretionary cost, it was deemed necessary to invest in our operations in the current year, with restructuring in both the hotel and property management businesses to provide stability and to position ourselves for growth as the Australian economy recovers.

Despite our goal to reduce debt levels, our opportunity to do so was limited. The depressed state of the property market, and low interest rates made asset sales unjustifiable. Sales activity within the retail property market has been extremely thin, with limited participation from the institutions which had been so active in earlier years. Heightened conservatism from valuers and financiers further impacted upon the decline in property valuations and, as a result, weighted average capitalisation rates on the Group's investment properties softened from 7.38% in 2007/08 to 8.23% in 2008/09.

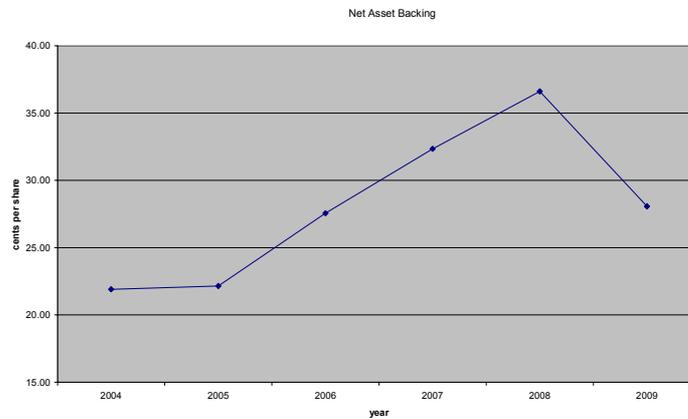
While we looked for suitable investment opportunities to expand our portfolio, we did not identify any worth pursuing given an absence of quality stock fulfilling our criteria of strong cash flows, secure long term tenants and redevelopment potential, and having regard to the pressure caused by diminishing property valuations on existing borrowing levels.

Our statutory net result is a net loss after tax of \$4.228 million for the 2008/09 year. This disappointing result takes into account the substantial, but unrealised, fair value decreases on our investment properties of \$6.228 million attributable to softened yields and weakened market outlook, as well as the \$0.547 million write down on impairment of acquired management rights following the advised loss of a significant property management client as of 30 September 2009. The statutory net result for 2007/08 was a net profit after tax of \$1.863 million incorporating net fair value increases on investment properties of \$1.377 million and recovery of costs on the discontinued Airlie Beach project of \$0.328 million.

Profit from ongoing operations adjusted for non-recurring and significant items such as property revaluations and goodwill impairment for 2008/09 is \$0.515 million after tax compared to \$0.669 million after tax in the prior year.



Fair value decreases in the Group's investment property assets (\$4.360 million net of tax) and land, building and licence assets (\$1.905 million net of tax) has led to a reduction in net assets attributable to members of Eumundi from \$25.985 million as at 30 June 2008 to \$19.925 million as at 30 June 2009.



Net asset backing per share has decreased from 36.6 cents per share to 28.1 cents per share a decrease of 23.2% compared to the prior year also attributable to the decline in fair value of the Group's assets. While net assets have decreased, they remain higher than at 30 June 2005 and measured on a per share basis net assets remain higher than at 30 June 2006.



Eumundi's share price on the ASX has been 7 cents per share for the past month, however there are few transactions taking place at these prices. As demonstrated by our balance

sheet, the true value of these shares is substantially higher even in the current depressed market.

The level of interest bearing borrowings at \$41.150 million is higher in 2008/09 than it has previously been, following the practical completion of the Bribie Harbour Shopping Village in April 2009. Compounded by the erosion of assessed property valuations, interest bearing debt now equates to 68.47% of property assets (including gaming licences) as compared to 57.89% in the prior year.

While our gearing level is high, our corporate banker continues to support us, as it has done in the past, recognising the quality of our assets, and the continued positive cash flows that are delivered by the Group's assets even in difficult times like this.

The reality of the current financial market is that long term credit is increasingly difficult to obtain, and interest rate margins have increased. An offer to extend the expiry date of a substantial proportion of the groups borrowing for a further 7 months has been received from our banker, and we are confident that further extensions will be available as required in the future.

### **SUBSEQUENT EVENTS**

The Company has made four announcements subsequent to the end of the year under report, which related to the revaluation of investment properties and to balance sheet reclassifications as contained within this report, the release of preliminary results, and the release of the 2008/09 Director's report and audited financial statements.

### **FUTURE DIRECTION**

There are encouraging signs that the worst of the financial turmoil may be behind us. Financial markets have stabilised and consumer and business confidence has lifted. Economic experts suggest that Australia will emerge from the recessionary cycle more quickly and in a stronger position than previously expected.

Eumundi Group remains prepared for another difficult year in 2009/10 with ongoing priorities of cost control, reduction of debt and the continued development and strengthening of existing assets.

The property sector remains weakened and the potential for additional downwards valuation movement is high as pressure from refinancing efforts motivates asset sales in some sectors. Vacancy levels in our investment properties increased during the year due to the increased retail tenancies available from the redevelopment of Bribie Harbour Shopping Village, and the expiry of three leases in the Aspley Centres. Leasing interest is increasing however, and we are quietly confident that this renewed optimism will assist Eumundi in filling the remaining vacancies in our investment property assets, thereby enhancing cash flows and maximising future valuations.

We will continue to actively search for opportunities that the current environment may deliver across all facets of our business, but we are mindful that debt level must be contained to allow safe servicing.

Through the expertise of high calibre professionals in each of our business sectors Eumundi Group has the capability to aggressively pursue a wide range of opportunities, with a particular emphasis on retail property acquisitions and development to further enhance our portfolio, but we will not do so unless any proposed deal can stand comfortably on its own.

The first stage of planned renovations was completed in the Ashmore Tavern public bar earlier this financial year, and feedback from patrons and staff has been very positive, with an increase in on-premise activity apparent. Further renovation works for the premises including lounge bar, gaming room, and DOSA deck are being considered and will take place subject to cash flow and other financial performance measures. Meanwhile, the acquisition of a detached bottle shop site at Broadbeach, replacing the under performing Ashmore City location, will increase retail sales while expanding the geographic coverage of our Quench

brand. The outlook for Ashore Tavern for the year ahead is favourable, under the sound management of Jason Morphett and his team of committed and enthusiastic staff.

Our existing property holdings are under constant review and exploration for possible redevelopment and improvement continues. The Board will not hesitate to take advantage of opportunities to trade assets where the offer will significantly improve the financial position of the group.

We are actively searching for mutually desirable strategic acquisitions. We will continue to pursue properties that may have been neglected or over looked for improvement and redevelopment, particularly those with a proven anchor tenant upon which the balance of development can be grown. We are expanding our geographic cover to include growing coastal and regional centres as well as metropolitan growth areas.

The retail and commercial property sector will continue to deliver healthy returns to its investors provided a solid anchor tenant is properly secured. Our aim is to build further upon our diverse portfolio of good quality retail and commercial properties with high occupancy demand to ensure a strong and reliable future cash flow, and capital growth.

### **CONCLUSION**

While remaining cautious about the economic outlook, the Directors are confident that we have taken the appropriate steps to get our business in a strong position to face ongoing challenges and capitalise on opportunities presented.

Borrowing levels are high however Eumundi Group still has the capacity to respond to appropriate opportunities within the property and hotel markets, and will consider other opportunities where the appropriate skills exist within the company to do so effectively. Given the level of economic uncertainty, the Directors intend to maintain a very conservative approach until costs of capital and the economy level to a stage whereby further investment opportunities can be undertaken safely.

The Directors are considering all available options to reduce borrowings and remain of the opinion that a strategic merger with a suitable and comparable size operation would accelerate the growth and potential (and value) of the company and so the search continues.

The Directors do not consider it appropriate to consider the payment of a dividend at this time with continued priority given to further building the Company's asset backing and ensure financial flexibility for acquisitions. We have available tax losses of \$704,000 which we will take up against the profits from future years. As previously indicated, once these tax losses have been utilised, and the company has built up a credible asset base, the payment of dividends will appear on the agenda.

The Board of Directors would like to thank all of our loyal and hard working staff but in particular Mark Peacock, our CEO, Suzanne Jacobi Lee, our CFO, Jason Morphett and his team at the Ashmore Tavern, and our staff at Punch Joseph and Associates.

I personally would like to thank my fellow directors for their expertise and the amount of work they put in each year with participation in meetings and discussions well beyond the formal board meetings.



J M Ganim  
Chairman  
30 September 2009

## **CHIEF EXECUTIVE OFFICER'S REPORT**

### **REVIEW OF OPERATIONS AND ACTIVITIES**

Throughout a year of world financial turmoil, like most property based companies our assets have suffered valuation downgrades, however, we have survived and look forward to an improving economic outlook which we believe will reflect positively on our efforts to stabilise and maximise cashflows from our various investments.

### **INVESTMENT PROPERTIES**

#### **Bribie Harbour Shopping Village**

The redevelopment of the Bribie Harbour Shopping Village reached practical completion in April 2009. This date was somewhat later than originally forecast, due to a number of factors, however construction has now finished and the centre is up and running. Unfortunately, there is a residual dispute with the Builder over variations and delay costs. Currently an Adjudicator is assessing the builder's claims which will provide an interim assessment. It is hoped that following this independent assessment, the matter can be resolved, without unnecessary dispute costs being incurred.

The expanded centre includes tenants such as a full-range IGA supermarket with internal Brumby's Bakery and Lenard's Chicken franchises, Liquorland bottle shop, butcher, bakery, newsagency, hairdresser, take-away foods, pool shop, musical instrument shop, and mobility aid shop.

Expanded from its original lettable area of 2,670 m<sup>2</sup>, the centre now boasts 4,508 m<sup>2</sup> of lettable area, of which 3,803 m<sup>2</sup> is leased and negotiations are currently in train with a major tenant to take 237m<sup>2</sup> of the remaining available space. Marketing is underway to generate further interest in the final 6 tenancies. Even though the take up of the vacant space has been slower than initially anticipated, we are confident that our property, being the second largest on Bribie Island, will fill up and prosper as the market improves.

Located near the growing Banksia Beach State School, which in 2008 had more than 820 students, from Prep Year through to Year 7, our centre is well positioned to accommodate the needs of these young students and their families moving forward.

Contribution of the Bribie Harbour Shopping Village after owner's costs for 2008/09 was \$563,000, an increase of \$238,000 over the 2007/08 pre-redevelopment contribution of \$325,000, despite the ongoing redevelopment and resulting vacancies.

Annualised contribution from this property incorporating recently finalised leases is estimated at approximately \$860,000 including land tax, but excluding owner's costs, and once fully leased we hope it will exceed \$1,200,000. As the local Bribie Island market improves so will the rents at the property which are significantly lower than our major competitor, Bribie Marketplace, the largest shopping centre on Bribie Island.

With excellent parking, an expansive, well appointed and operated Super IGA anchor tenant, occupying 2,766 m<sup>2</sup> of the centre, and committed specialty tenants, we look forward to improving conditions and future valuation upgrade at our centre.

#### **Aspley**

Situated 13 km north of the Brisbane General Post Office on the outbound lane side of Gympie Road are our Aspley investment properties incorporating the adjoining Aspley Shopping Centre and Aspley Arcade properties. Combined, these properties comprise a total area of 15,158 m<sup>2</sup> of "Multi-Purpose Centre MP3 – Suburban Centre" land with 4,553 m<sup>2</sup> of net lettable area, 34 configured tenancies and in excess of 260 car parks. With the adjoining property recently being redeveloped and now supporting increased commercial occupant

base, this property provides excellent retail opportunities with the right mix of tenants for continued growth, as well as excellent future development potential.

Of the 34 tenancies, four vacancies exist in the combined centres: one smaller tenancy has remained vacant during the year, while the other three vacancies arose recently upon expiry of the subject leases. No leases have been terminated through tenant default during the past 12 months. Of the vacancies, two are currently the subject of lease negotiations, which we are hopeful to successfully conclude within a month or so. This will leave 2 tenancies with a net lettable floor area of 115 m<sup>2</sup> (2.5% of the total net lettable area) to be leased, which are being actively marketed.

National and State businesses represented in these centres include Westpac, ANZ, Pizza Hut, Subway, Brumby's Bakery, Cold Rock Ice Cream, Ray White, LJ Hooker, Liquorland and Q-Scan complementing the local tavern, pharmacy, newsagent, dentist, lawyer, physiotherapy, hairdresser, convenience store, real estate, craft supply, florist, cafe and take-away food tenants.

The combined centres contributed \$2,668,000 after owners expenses in 2008/09, an increase of 3.76% compared to \$2,571,000 in the prior year.

Annualised contribution from these properties incorporating recently finalised leases is estimated at approximately \$2,655,000 including land tax, but excluding owner's costs, and fully leased we are hopeful that this will exceed \$2,750,000.

With a balanced market review of leases, in an improving economic climate over the coming years, we hope to see the centres performance grow at a rate exceeding inflation, thereby impacting favourably on the centres value, both as an income investment and development prospect.

#### **Home Hill**

Farry's Food Town IGA is the sole tenant of the Home Hill property with a 14 year initial lease term which commenced in January 2007 and with two further options of 5 years. This property consists of 2,226 m<sup>2</sup> of land, located in the main street of Home Hill and in close proximity to the Post Office, including an undeveloped 1,012 m<sup>2</sup> block of land at the rear of the existing building.

As with each of our investment property acquisitions, the Home Hill property has the potential for further development whether by expansion and redevelopment of the current tenant's business, or alternatively through the addition of specialty retail to the site by utilising the adjoining vacant land. Any redevelopment would be assessed on the basis of the tenant's capacity and desire to expand, and the strength of the local economy.

Contribution from this property after owner's expenses was \$92,000 in 2008/09, down by \$45,000 on the 2007/08 year contribution of \$132,000 as a result of substantial roofing repairs completed.

With a solid and successful supermarket operation it is expected that this property will increase in value over time even without redevelopment.

#### **ASHMORE TAVERN**

Ashmore is situated on Queensland's Gold Coast, approximately 3 km west of the Southport CBD and 6 km from the beach at Surfers Paradise. The Tavern is well positioned on a prominent 8,944 m<sup>2</sup> site on the corner of Cotlew and Currumburra Streets, surrounded by a mix of residential, commercial, retail and light industrial businesses.

The property, which was constructed in 1985, comprises a multi level tavern including gaming lounge with 40 machines, public and lounge bars, restaurant, on-site TAB, drive-

through bottle shop and a detached liquor barn. The tavern presently includes two outdoor areas, including restaurant seating and gaming lounge designated outdoor smoking area (DOSA).

As allowed under the general licence, the property has three detached retail bottle shops: the recently acquired Bel Air bottle shop at Broadbeach, replacing an underperforming site at Ashmore City, as well as the Bronberg Plaza and Ashmore Plaza both in the Ashmore precinct.

Revenue from hotel operations was maintained over the past year which was a good result in the circumstance. In June 2008, the venue's adult entertainment licence lapsed due to zoning issues which became the catalyst for change at the Tavern.

This culminated in strategies to recreate the tavern as a destination of choice, attracting new customers from the surrounding community and building upon an existing loyal customer base. Repositioning the Hotel to increase market share was to be combined with the much needed renovation works originally targeted for late last year. These works were deferred due to the economic factors and the first stage of those works was only recently completed. In addition, Gaming revenues were impacted by legislation introduced in February 2009 which restricted the operating hours of non-casino gaming venues.

Over the last 12 months we have worked hard with the Tavern's management to achieve this goal and to date have implemented the following:

- termination of on-premise catering contract, with kitchen operations brought in house to improve quality of food offered;
- New menu developed to increase restaurant trade and enhance patronage of the venue's gaming and bar facilities;
- Recent completion of substantial public bar renovations, with the TAB relocated upstairs into the modern, well appointed Sports Bar;
- Addition of all-weather protection gaming lounge DOSA;
- Effective marketing and promotion of planned venue functions and events;
- Ongoing gaming machine upgrades.

These measures are starting to show results, with bar sales having nearly recovered to the level that existed prior to the loss of the adult entertainment, and restaurant turnover more than tripling since being taken in house last September.

Further works are required in order to realise our goals, including renovation works to the Gaming Bar, Lounge Bar and Restaurant, toilet facilities and the addition of a DOSA deck adjoining the Sports Bar. Once again, timing and prioritisation of each of these works will be determined by the economy. In the interim, any improvements achievable with minimum capital outlay, where they result in improvement to the venue presentation and profitability, are undertaken as required.

With emphasis on growing the retail operation of the Tavern, we are open to opportunities that may arise to further promote our Quench brand and attract others to join us in an independent buying group or to acquire another hotel operation in the Gold Coast region and maximise the expertise held by our management team.

#### **PUNCH JOSEPH & ASSOCIATES**

Our property management business has had a difficult year. Prior restructuring efforts failed due partially due to the volatility of the employment market and lack of appropriate candidates for key roles, and partially to the unsuccessful attempt to otherwise manage the business with part-time use of strategic resources.

The resulting turmoil distracted staff from the objective of targeted business growth, while the evaporation of leasing activities caused reduction in ancillary income. To compound

matters a large client representing 21% of management revenues decided to take its management in house. This decision was taken in response to the market conditions, and a desire by the client to take these functions in-house to a related entity, and was not attributable to any erosion in service delivery.

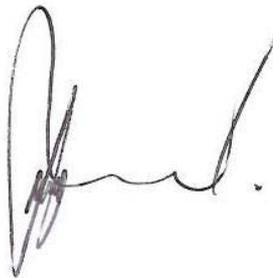
The focus is now on building the business. Through marketing initiatives we are hopeful of replacing the lost income with new managements and leasing fee opportunities. This may take some time; however, we are encouraged by the loyalty and quality of our existing clientele and managements who seem also to have weathered the financial storm. We hope this augurs well for growth in our existing managements as our clients position themselves to grow their portfolios.

While it has been a difficult year, it is pertinent to note that monthly management revenue has grown since acquisition of this business, even after taking into account the loss of this significant client.

### **FUTURE DIRECTION**

While focussing on leasing up vacancies in existing centres, and improving the performance of our business assets, Eumundi is committed to exploring opportunities to grow. In saying this we are very conscious of market conditions and the restrictions placed on access to capital.

Upon maximising returns on existing assets, we hope to reward our loyal shareholders and attract new quality investments which will see our future share price more properly reflect net asset backing. This may also present opportunities to expand Eumundi's asset base thereby providing further opportunities for growth.

A handwritten signature in black ink, appearing to read 'Mark Peacock', with a large loop at the start and a long horizontal stroke at the end.

Mark Peacock  
Chief Executive Officer

30 September 2009