

INVESTORS' REPORT

2011/12

SEPTEMBER 2012



Neil Summerson
Chairman



Geoff McMahon
Managing Director

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

ECONOMIC ENVIRONMENT

The global economic outlook continues to be dominated by concerns about the fiscal and banking problems facing the euro zone, which continue to cause considerable volatility in financial markets. Expectations for global growth remain subdued in 2013 with authorities in the euro zone facing significant challenges. The drag on global economic growth from the advanced economies is placing increasing importance on the faster growing emerging economies, particularly in Asia.

The Australian economy continues to record moderate growth. However, conditions continue to vary significantly across industries and regions with the economy undergoing considerable structural change in response to relatively high commodity prices and the accompanying high exchange rate. The resources sector remains a key element in the Australian economy, although the resources cycle peak may now have passed. The high exchange rate, deleveraging by businesses and households and weak consumer spending means that overall growth outside the resources sector is expected to remain below trend.

PROPERTY MARKET

The "multi-speed" theme continues to play out in Australian property markets, with quality commercial office properties performing relatively well. However, lesser quality commercial and residential properties are still facing significant headwinds.

Against the background of an uncertain global economic outlook and a moderate and slowing Australian economy, the outlook for the commercial and residential property market remains subdued.

► Continued on page 2

KEY FEATURES 2011/12

- Net asset value per stapled security of 50 cents
- Statutory accounting after tax loss of \$26.2 million*
- Underlying after tax operating profit of \$7.7 million**
- Net assets of \$114 million
- Total assets under management of approximately \$1.1 billion
- Settlement of the sale of the Westpac Concord Campus for \$52 million in May 2012
- 12 Creek Street (Blue Tower), Brisbane under unconditional contract of sale which is due to settle on 31 October 2012
- 18.5 cents per stapled security is proposed to be paid to investors in November 2012.

* Includes non-operating and non-cash items such as property revaluations, impairment of goodwill and write-down of tax losses totalling \$33.9 million.

** Underlying profit is calculated in accordance with ASIC's Regulatory Guide 230 "Disclosing non-IFRS financial information" issued December 2011.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

(CONTINUED)

2011/12 RESULT

APGF recorded an accounting statutory loss after tax of \$26.2 million for the year ended 30 June 2012. This result includes non-cash and non-operating items such as property revaluations, goodwill impairment and a write-down of tax losses totaling \$33.9 million.

The 2011/12 result was impacted by the following major items:

- A valuation decrease of \$7.6 million was booked in 2011/12, primarily to align the book carrying value of 12 Creek Street, Brisbane with the contract sale price which is due to settle on 31 October 2012;
- An impairment loss of \$13.4 million was recognised on goodwill arising from the acquisition of the property funds management business. Directors assessed the recoverability of goodwill and determined recognition of an impairment loss was warranted;
- The reassessment of future activity in the property funds management business has resulted in \$5.6 million in tax losses being derecognised in 2011/12;
- Derecognition and impairment of the property funds management intangible asset of \$3.6 million; and
- Write down and development costs expensed totalling \$3.7 million for Palm Beach and Ulladulla.

APGF achieved an underlying after tax operating profit of \$7.7 million for the period under review.

APGF's net asset value per stapled security as at 30 June 2012 was 50 cents.

CORPORATE STRATEGY

As discussed in the March 2012 *Investors' Report*, the APGF Board has been investigating opportunities to facilitate a partial liquidity event for APGF headstock investors in 2012.

The APGF Board has determined an orderly sell down of its headstock property assets and the gradual winding down of its property funds management business, as each managed fund reaches its maturity date, is the optimal way to provide such liquidity events for investors.

The wind-up of the APGF business and payments to investors is likely to take a number of years. The first payment to investors is scheduled to be paid in November 2012 as a result of the sale of 12 Creek Street (Blue Tower) Brisbane, which is presently under an unconditional contract for \$241.6 million. Blue Tower is due to settle on 31 October 2012.

The APGF Board was pleased with the successful outcome of the Blue Tower sale process, which was the largest commercial property transaction in the Brisbane CBD in 2012. APGF secured an excellent price and maximised value for our investors in the prevailing market.

The majority of the Blue Tower sale proceeds will be used to reduce APGF's external debts with the remaining funds being used to pay 18.5 cents per stapled security to investors.

The timing and quantum of future payments to investors will depend on the outcome of the marketing campaigns for the wind-up and sale of APGF's remaining property assets. Quarterly distributions will not be paid during this process.

The second payment to investors is expected to occur following the sale of the ANZ Royal Bank Chambers Building in Collins Street, Melbourne, which is likely to be in 2014.

A further payment to investors is likely on the finalisation of Stage 2 of Pavilions on Palm Beach, which is expected to occur within the next few years.

APGF will continue to keep investors informed regarding the progress of the headstock asset sale process.

We would like to thank all of our stakeholders for their continued commitment and support, particularly over the past few challenging years.



Neil Summerson
Chairman



Geoff McMahon
Managing Director



Royal Bank Chambers, Melbourne



Pavilions Palm Beach, Gold Coast

UPDATE ON TRUST ASSETS

WESTPAC CONCORD CAMPUS, CONCORD WEST, SYDNEY

The sale of Westpac Concord Campus for \$52 million settled on 24 May 2012. This sale price was in line with the property's current valuation.

Westpac Concord Campus, located in Concord West, approximately 15 kilometres from the Sydney CBD, was acquired by APGF in October 2007.

This property is a 16,500 square metre commercial/business park development comprising office accommodation along with other facilities.

The asset was sold following Westpac's recent agreement to a 10-year lease extension to 31 October 2022.

12 CREEK STREET (BLUE TOWER) BRISBANE CBD

As discussed earlier in this Report, Blue Tower is under unconditional contract of sale for \$241.6 million with settlement scheduled to occur on 31 October 2012.

The property was sold to Dexu Property Group following an extensive marketing campaign. The sale price of \$241.6 million represented a Brisbane CBD commercial property sale record for 2012. While the sale price was less than the property's latest independent valuation of \$252 million, the APGF Board is confident the sale price achieved was maximised in the current market.

The property was well positioned for sale following completion of an \$8 million refurbishment program and with a Weighted Average Lease Expiry (WALE) of approximately five years.

ROYAL BANK CHAMBERS, MELBOURNE CBD

APGF acquired the classic sandstone Royal Bank Chambers building in Melbourne's prestigious Collins Street in October 2007.

ANZ has a long-term lease over the retail banking chambers. As previously advised, ANZ vacated the nine upper floors in December 2009. The refurbishment and re-leasing program is proceeding with three floors refurbished and re-leased as at 30 June 2012.

As at 30 June 2012, the building was valued at \$30.5 million.

As discussed in the March 2012 *Investors' Report*, the property had been marketed for sale. However, it has been decided to further the refurbishment and leasing program prior to finalising a sale to maximise the sale price.

UPDATE ON DEVELOPMENT PROJECTS

PAVILIONS PALM BEACH, GOLD COAST

APGF has continued to develop the \$125 million Pavilions Palm Beach mixed retail and residential project.

Construction of Stage 1 was completed in June 2009. As at 21 September 2012, 103 of the 104 apartments have settled and the retail precinct was 100% leased.

Despite the depressed nature of the Gold Coast market, the sales and leasing success of Stage 1 reflects the quality of the project and the area's demographics support the project's concept.

Stage 2 of the project comprises an additional 98 apartments and a dedicated dining and café precinct. Construction of Stage 2 will commence once sufficient pre-sales have been secured.

For more information, please visit www.pavilionspalmbeach.com.au

ULLADULLA, NEW SOUTH WALES

Both of APGF's Ulladulla land subdivisions are quality projects however they continue to be impacted by the fallout from the credit crisis and the softening of the New South Wales south coast residential market.

APGF is continuing to market the developed lots in the Springfield Meadows Estate and will look to exit the Dolphin Point land holding in coming years.

APGF gained its interests in these two properties through the acquisition of a property funds management business in mid-2007.

For more information, please visit www.springfieldmeadows.com.au



UPDATE ON PROPERTY FUNDS MANAGEMENT BUSINESS

As advised in the March 2012 *Investors' Report*, this business is being wound down in a gradual and orderly fashion. Properties in the individual funds are being sold progressively with the overriding consideration being whether a sale is in the best interest of the Funds' investors.

APGF is continuing to focus on the proactive management of property assets, to maximise net income and enhance investors' returns.

In August 2012, APGF sold the management of PFA to Charter Hall for \$10 million, with \$5.2 million of the consideration being received at settlement. The remaining \$4.8 million will be paid over six years from a share of PFA's asset disposal and performance fees.

ANNUAL REPORT

The 2011/12 Annual Report is currently being prepared and will be available to download at our website, www.apgf.com.au, in late October 2012. Should you wish to receive a copy of the 2011/12 Annual Report by mail, please advise us on 1300 668 698 or at info@apgf.com.au

DISCLAIMER

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