

INVESTORS' REPORT 2012/13

OCTOBER 2013

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Investors are aware the Directors of APGF have determined an orderly sell-down of the assets as the optimum way to provide liquidity for investors. The wind-up process is well advanced, however some aspects of the APGF business and related payments to investors are reliant on milestones that will likely take a number of years to complete.

In line with this strategy, Blue Tower (12 Creek Street, Brisbane) was sold on 31 October 2012 and an interim return of 18.5 cents per stapled security was paid to investors on 2 November 2012.

To facilitate the ultimate wind-up of APGF and to accelerate the return of further funds to investors, together with satisfying investors' distribution entitlements from the Blue Tower sale, a Preference Share Issue and a Partial Off-market Buyback of Stapled Securities was delivered in the second half of 2012/13. Both of these transactions were directed at delivering the highest after-tax return to investors through the gradual wind-up process.

The Directors have recently executed an unconditional contract for the sale of the commercial office building at 287 Collins Street, Melbourne for \$31.5 million, with settlement expected to occur on 10 December 2013.

In addition to this sale, APGF is expecting further funds to be received from the release of the \$4.82 million Blue Tower sale warranty guarantee.

The settlement of the sale of 287 Collins Street, Melbourne and the abovementioned transaction will allow the Fund to further reduce borrowings and to make another distribution payment to investors in the coming months. Investors will be advised of the timing and payment details upon settlement of these transactions.

Further payments to investors are expected on completion of Stage 2 of Pavilions Palm Beach which is scheduled for development within the next few years. The past few years have been challenging for the Fund and the Directors are fully aware of the impact this has had on investors. The Directors continue to focus on maximising returns to investors from the Fund's remaining assets.

To further facilitate the wind-up of APGF, the Directors have proposed a number of resolutions to be voted on at the Fund's Annual General Meeting on 25 November 2013. These include de-listing from the National Stock Exchange and the de-stapling of Australian Property Growth Trust (APGT) and Australian Property Growth Limited (APGL). These proposals will also reduce APGF's operating costs, which are continuing to be monitored and reduced.

Reflecting the reduced size of APGF and the gradual winding down of the business, Directors Bob Bryan and Ken Pickard are retiring at the 2013 AGM and will not be seeking re-election. It is intended to permanently reduce the current five member Board to three members after the AGM. The Directors' fees and the Managing Director's remuneration were reduced by 50% from 1 November 2012. From the final quarter of 2013, APGF will only have three full-time employees.

We would like to take this opportunity to acknowledge and thank both Bob Bryan and Ken Pickard for their dedicated service over many years to APGF.

We will continue to keep investors informed regarding the progress of the asset sale process and would like to thank all of our stakeholders for their continued commitment and support.

Yours sincerely



Neil Summerson
Chairman



Geoff McMahon
Managing Director

2012/13 RESULT

The key features for 2012/13 include:

- Loss after tax of \$8.8 million;
- Net asset value per stapled security of 24.1 cents (after capital returns and partial buyback proceeds of 22.24 cents per stapled security paid to investors in 2012/13). For ease of comparison, this net asset value calculation is based on the original 227,580,022 stapled securities.
- Sale of Blue Tower for \$241.6 million on 31 October 2012;
- A cash distribution of 18.5 cents per stapled security paid to investors on 2 November 2012;
- A non-cash distribution of 18 cents per stapled security paid to investors on 3 June 2013 in the form of one Preference Share for every unit held in APGT which resulted in the issue of 227,580,022 new APGL Preference Shares on 3 June 2013 at a non-cash issue price of 18 cents per share; and
- Partial Off-market Buyback of 91,032,007 Stapled Securities on 26 June 2013 at a cash cost of \$8,520,596.

Major items that contributed to the accounting loss were:

- Costs on disposal of Blue Tower of approximately \$3 million;
- Write-down of tax losses carried forward and tax effect of the inter-fund loan forgiveness of approximately \$3.7 million;
- Development costs expensed on APGF's development projects; and
- Costs incurred in the winding up of APGF's business.

UPDATE ON TRUST ASSETS

12 CREEK STREET ("Blue Tower"), BRISBANE CBD

Blue Tower was sold for \$241.6 million with settlement occurring on 31 October 2012. \$5 million of the sale price was retained at settlement to guarantee the warranties that APGF provided to the purchaser in the sale contract. \$4.82 million is due to be released to APGF on 31 October 2013 with the remaining \$0.18 million due to be released in the subsequent 18 months.

APGF relocated its Head Office from Level 15 of Blue Tower to a smaller tenancy on Level 5. The former tenancy on Level 15 is still being marketed for sub-lease.

ROYAL BANK CHAMBERS, MELBOURNE CBD

An unconditional sale contract for \$31.5 million has recently been executed with settlement scheduled for 10 December 2013. The sale price was in line with the current book carrying value and there are no rent guarantees or cash retentions included in the sale contract.

UPDATE ON CURRENT DEVELOPMENT PROJECTS

PAVILIONS PALM BEACH, GOLD COAST

Construction of Stage 1 of the \$125 million "Pavilions Palm Beach" mixed retail and residential project was completed in June 2009. 103 of the 104 apartments have settled and the retail precinct is 100% leased.

Stage 2 of the project comprises approximately 100 additional apartments and a dedicated dining and café precinct. An amended Development Approval will be submitted in 2014 to update the project's design and to reposition Stage 2 to ensure the Project is ready to commence marketing once more favourable conditions return to the Gold Coast apartment market. All Stage 2 pre-sale apartment contracts were rescinded during 2013 as these contracts had passed their sunset expiry dates.

ULLADULLA, NEW SOUTH WALES

APGF gained its interests in two land subdivisions at Ulladulla through the acquisition of a property funds management business in mid-2007.

APGF is continuing to market the developed lots in the Springfield Meadows Estate with 27 of the 63 Stage 1 lots settled. Recently, sales activity at Springfield Meadows has increased significantly as the New South Wales residential market has improved. It is intended to commence developing the first stage of Dolphin Point in early 2014.

UPDATE ON PROPERTY FUNDS MANAGEMENT BUSINESS

As investors are aware, this business is being wound up 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 Fund's investors. Two managed funds were wound-up in 2012/13, with the remaining funds expected to be wound-up over the next two years.

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. To date, \$0.4 million of the deferred consideration has been received.

ANNUAL REPORT

The 2012/13 Annual Report is available to download at our website, www.apgf.com.au. Should you wish to receive a copy of the 2012/13 Annual Report by mail, please advise us on 1300 668 698 or at info@apgf.com.au.



AUSTRALIAN PROPERTY GROWTH FUND
GPO Box 3119 Brisbane Qld 4001
T 07 3004 1214 | F 07 3003 012
info@apgf.com.au | www.apgf.com.au

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