

# **Australian Property Growth Limited**

**(formerly Leyshon Developments No. 3 Limited)**

**ABN 56 111 628 589**

**Interim Consolidated Financial Report  
for the half year ended 31 December 2006**

## **Corporate Information**

This financial report covers Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited) ('APGL'). APGL has a 100% ownership interest in APGL (Palm Beach) Pty Ltd (formerly Leyshon Palm Beach Developments Pty Ltd) ('APB').

**Corporate Information for APGL is as follows:**

**Registered office and principal place of business is located at:**

Level 1  
295 Elizabeth Street (Cnr Creek Street)  
Brisbane QLD 4000  
Phone 61 7 3004 1222

### **Auditors**

Ernst & Young  
Level 5  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

## **Directors' Report**

The Board of Directors of Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited) ('APGL' or 'the company') has pleasure in submitting the Condensed Balance Sheet of APGL and its controlled entity as at 31 December 2006, and related Condensed Income Statement, Condensed Statement of Changes in Shareholders' Interests, Condensed Cash Flow Statement and notes for the half year then ended and report as follows:

### **DIRECTORS**

The names of the Directors in office at the date of this report are provided below. Directors were in office for this entire period unless otherwise stated.

Neil Edwin Summerson (Non-executive Chairman)  
Geoffrey Michael McMahon (Managing Director)  
William Gerard Collins  
Michael O'Reilly  
Robert Bryan  
Scott Edward Bryan  
Kenneth Ross Pickard  
Sally Kathleen Smith (Alternate for Scott Edward Bryan)

### **COMPANY SECRETARY**

Christina Natalie Little has been the company secretary of the company since November 2004.

### **FUND INFORMATION**

#### **Structure of Australian Property Growth Fund**

The Fund was created upon the issue of units by APGT and of shares by APGL and the stapling of the securities on 21 December 2004.

APGT was created by a Trust Deed dated 14 May 2004, which was subsequently amended on 8 November 2004, 9 March 2005, 27 June 2005, 4 September 2006 and 13 February 2007. Units were issued under Prospectus and Product Disclosure Statements dated 8 November 2004 and 19 July 2006. On 19 September 2006 APGT acquired a 99.99% ownership interest in Blue Tower Trust ("BTT").

APGL was incorporated on 2 November 2004 and issued shares under Prospectus and Product Disclosure Statements dated 8 November 2004 and 19 July 2006. APB was incorporated on 21 March 2005 as a wholly owned subsidiary of APGL.

Units issued in APGT are stapled to shares issued in APGL and are treated as one security. The stapled securities are quoted and traded together on the Bendigo Stock Exchange ("BSX"). The stapled securities cannot be traded or dealt with separately.

The two entities comprising the Fund remain separate legal entities in accordance with the Corporations Act 2001, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the Corporations Regulations 2001.

The Fund's stapled security structure allows equity investors to derive income from passive property ownership (Comalco Place, Melbourne Street and future projects) supplemented by profits from funds management and property development (London Woolstore, Palm Beach and future projects).

The Fund is subject to a Stapling and Asset Management Deed dated 8 November 2004, whereby APGF Management Limited ("APGM") in its own capacity is the Manager of the Fund and Asset Manager of the projects of the Fund.

## **Directors' Report (continued)**

### **PRINCIPAL ACTIVITIES**

The company was established to develop a portfolio of quality property projects including:

- London Woolstore at Vernon Terrace, Teneriffe, involving the conversion and refurbishment of three former woolstore buildings into 89 residential apartments, car parking, nine retail shops and commercial office space;
- Palm Beach Plaza, Gold Coast Highway, Palm Beach. This site is to be developed into an approximate 5,000m<sup>2</sup> retail and commercial complex and approximately 194 residential apartments to be known as Pavilions on Fifth. The project is planned to be developed in two stages over 2007 – 2009; and
- Future projects which satisfy the Fund Managers' project selection criteria.

### **OPERATING AND FINANCIAL REVIEW**

#### **Review of Operations for the period**

APGL was established to undertake funds management and develop a portfolio of quality property development projects.

APGL's first project was the London Woolstore project at Vernon Terrace, Teneriffe. The London Woolstore Project involved the conversion and refurbishment of an early 1900's four storey former Woolstore building into 89 residential apartments, car parking and nine ground level retail shops. Construction commenced in December 2004 and was completed in January 2006.

In addition to the main Woolstore building, the site also includes two smaller buildings (heritage listed) which are presently leased to various tenants for professional offices. They have been refurbished into warehouse style office accommodation. These two buildings are under contract for \$5.7 million.

As at 19 February 2007, 76 apartments had settled, five apartments were subject to an unconditional contract of sale and five apartments were subject to a conditional contract for sale. In addition, eight of the ground level retail shops had settled and one was subject to an unconditional contract of sale.

The Palm Beach Project property is situated on the corner of the Gold Coast Highway, Fourth Avenue and Fifth Avenue, Palm Beach, Gold Coast. The site comprises two lots totalling 9,819m<sup>2</sup> and currently operates as the Palm Beach Plaza Shopping Centre.

The Palm Beach site is to be developed into an approximate 5,000m<sup>2</sup> retail and commercial complex and approximately 194 residential apartments to be known as Pavilions on Fifth. Development approval for this project was received on 28 August 2006. The design development phase has also now been completed. Construction is expected to commence in 2007 and the project is planned to be developed in two stages over 2007 – 2009.

## **Directors' Report (continued)**

### **OPERATING AND FINANCIAL REVIEW (continued)**

#### **Review of Operations for the period (continued)**

On 19 July 2006 the Fund issued a Prospectus and Product Disclosure Statement seeking to raise capital up to a maximum of \$74.2 million centred on a non-renounceable two for one Entitlement Issue of 70 million stapled securities issued at \$1.06 per stapled security. At 31 December 2006, the Fund has allotted 46,810,736 stapled securities raising \$49.62 million. The funds have been allocated on the basis of \$1.05 per unit in APGT (total to date \$49.15 million) and \$0.01 per share in APGL (total to date \$0.47 million).

#### **Results**

The net operating result of the consolidated entity is presented in the Condensed Income Statement. The net loss attributable to the shareholders for the half year ended 31 December 2006 was \$1,462,668 (2005: \$1,212,978). This loss resulted from pre-development costs on the Palm Beach Project that are required to be expensed until such time as the Directors resolve to proceed with construction.

#### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

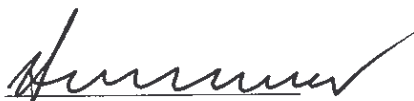
The Directors are not aware of any matter or circumstance not otherwise dealt with in the reports or the accounts that has significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

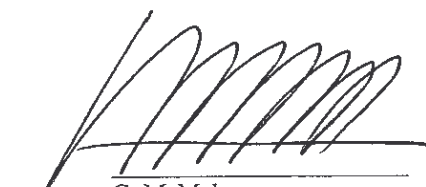
#### **AUDITOR INDEPENDENCE DECLARATION**

We have obtained an independence declaration from our auditors, Ernst & Young, as attached at Page 15.

This statement is made in accordance with a resolution of the Directors.

On behalf of the Board

  
N. Summerson  
Chairman

  
G. McMahon  
Managing Director

Brisbane  
6 March 2007

## Condensed Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

		Consolidated	
	Note	2006 \$	2005 \$
<b>Revenue</b>			
Development management fee income		17,205,144	0
Rental income		231,962	299,849
Interest income		49,380	79,410
<b>Total Revenue</b>		<u>17,486,486</u>	<u>379,259</u>
<b>Less Expenses</b>			
Audit fees		38,060	30,500
Borrowing expenses	4	54,353	27,165
Cleaning		15,701	15,466
Development costs expensed	4	19,290,270	1,942,652
Legal costs		21,386	38,934
Repairs and maintenance		13,485	8,579
Other expenses		143,681	48,739
<b>Total Expenses</b>		<u>19,576,936</u>	<u>2,112,035</u>
<b>Loss from operating activities before income tax</b>		(2,090,450)	(1,732,776)
Income tax benefit		627,782	519,798
<b>Loss from operating activities after income tax</b>		<u>(1,462,668)</u>	<u>(1,212,978)</u>
<b>Earnings per share (cents per share)</b>			
- Basic earnings per share		(1.5)	(3.5)
- Diluted earnings per share		(1.5)	(3.5)

The above Condensed Income Statement should be read in conjunction with the accompanying notes.

## Condensed Balance Sheet

AS AT 31 DECEMBER 2006

		Consolidated	
	Note	31 December 2006 \$	30 June 2006 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		8,200,911	738,703
Trade and other receivables		3,420,317	275,285
Inventories		10,957,647	26,680,290
Other		1,500	310,222
<b>Total Current Assets</b>		<b>22,580,375</b>	<b>28,004,500</b>
<b>NON-CURRENT ASSETS</b>			
Inventories		11,599,334	11,648,437
Deferred tax asset		4,913,963	9,002,975
<b>Total Non-current Assets</b>		<b>16,513,297</b>	<b>20,651,412</b>
<b>TOTAL ASSETS</b>		<b>39,093,672</b>	<b>48,655,912</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		600,881	1,879,384
Interest bearing loans and borrowings		19,014,300	22,015,979
<b>Total Current Liabilities</b>		<b>19,615,181</b>	<b>23,895,363</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability		3,287,294	8,004,087
Other		2,020,973	1,576,548
<b>Total Non-current Liabilities</b>		<b>5,308,267</b>	<b>9,580,635</b>
<b>TOTAL LIABILITIES</b>		<b>24,923,448</b>	<b>33,475,998</b>
<b>NET ASSETS</b>		<b>14,170,224</b>	<b>15,179,914</b>
<b>REPRESENTED BY:</b>			
<b>EQUITY</b>			
Contributed equity	7	17,671,088	17,218,110
Accumulated losses		(3,500,864)	(2,038,196)
<b>TOTAL EQUITY</b>		<b>14,170,224</b>	<b>15,179,914</b>

The above Condensed Balance Sheet should be read in conjunction with the accompanying notes.

## Condensed Statement of Changes in Shareholders' Interests

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Shares Issued	CONSOLIDATED Retained Profits/ (Accumulated Losses)	Total Equity
	\$	\$	\$
<b>At 1 July 2005</b>	17,218,110	61,562	17,279,672
Total income and expense for the period recognised directly in equity	0	0	0
Loss for the period attributable to members of APGL	0	(1,212,978)	(1,212,978)
Total income for the period attributable to members of APGL	0	(1,212,978)	(1,212,978)
<b>At 31 December 2005</b>	17,218,110	(1,151,416)	16,066,694
<b>At 1 July 2006</b>	17,218,110	(2,038,196)	15,179,914
Total income and expense for the period recognised directly in equity	0	0	0
Loss for the period attributable to members of APGL	0	(1,462,668)	(1,462,668)
Total income for the period attributable to members of APGL	0	(1,462,668)	(1,462,668)
Shares issued	468,107	0	468,107
Transaction costs	(15,129)	0	(15,129)
<b>At 31 December 2006</b>	17,671,088	(3,500,864)	14,170,224

The above Condensed Statement of Changes in Shareholders' Interests should be read in conjunction with the accompanying notes.



## Condensed Cash Flow Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Consolidated	
	2006	2005
	\$	\$
<b>Cash flows from operating activities</b>		
Receipt of development management fees	15,816,416	0
Receipts from customers	282,265	342,614
Payments to suppliers & employees	(5,786,020)	(8,505,484)
Interest and other finance costs paid	(678,298)	(1,416,112)
Interest and bill discounts received	49,380	79,409
<b>Net cash flows from/(used in) operating activities</b>	<b>9,683,743</b>	<b>(9,499,573)</b>
<b>Cash flows from investing activities</b>		
Payments for inventories	0	(1,639,556)
<b>Net cash flows from/(used in) investing activities</b>	<b>0</b>	<b>(1,639,556)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	6,500,000	7,895,681
Repayment of borrowings	(6,493,922)	0
Proceeds from borrowings – related parties	319,409	406,157
Repayment of borrowings – related parties	(1,500,000)	0
Repayment of convertible notes	(1,500,000)	0
Proceeds from issue of unsecured notes	0	1,500,000
Proceeds from the issue of shares	468,107	0
Payment of share issue costs	(15,129)	0
<b>Net cash flows from/(used in) financing activities</b>	<b>(2,221,535)</b>	<b>9,801,838</b>
Net increase/(decrease) in cash held	7,462,208	(1,337,291)
Cash and cash equivalents at beginning of the period	738,703	3,936,142
<b>Cash and cash equivalents at end of the period</b>	<b>8,200,911</b>	<b>2,598,851</b>

The above Condensed Cash Flow Statement should be read in conjunction with the accompanying notes.

## **Notes to the Financial Statements**

### **FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

#### **1. CORPORATE INFORMATION**

Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited) ('APGL' or the 'company') is a company limited by shares incorporated and domiciled in Australia.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of APGL as the full financial report.

The half year financial report should be read in conjunction with the annual financial report of APGL as at 30 June 2006. The half year financial report has been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006 except for the adoption of amending standards mandatory for annual reporting periods beginning on or after 1 July 2006 as described in note 2(b). For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

The half year financial report is to be read in conjunction with any public announcements by APGL during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and the BSX Listing Rules.

##### **(a) Basis of preparation**

The half year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The half year consolidated financial report has also been prepared on the basis of historical costs. The half year consolidated financial report is presented in Australian dollars.

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2006

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (b) Changes in accounting policies

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 31 December 2006:

Ref	Title	Summary	Application Date of Standard*	Impact on Group financial report	Application Date for Group*
AASB 2005-10	Amendment to Australian Accounting Standards AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures</i>	New standard replacing disclosure requirements of AASB 132.	1 January 2007	As above.	1 July 2007
UIG 10	Interim Financial Reporting and Impairment	Addresses whether an entity should reverse impairment losses recognised in an interim period if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent reporting date.	1 November 2006	The Group has not recognised impairment losses to date. These amendments are not expected to have an impact on the Group's financial report in future reporting periods unless the Group recognises impairment losses in interim reports in the future.	1 July 2007

\* designates the beginning of the applicable annual reporting period.

These revisions have been assessed to require no change in accounting policies nor are they expected to result in any significant impact on reported results.

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2006

#### 3. SEGMENT INFORMATION

The consolidated entity operates in Australia and in the industry of property development.

	Consolidated	
	2006	2005
	\$	\$
<b>4. EXPENSES</b>		
Borrowing Expenses		
Interest and finance charges paid or payable to:		
Related parties	50,033	0
Amortisation of borrowing costs	4,320	27,165
Total borrowing expenses	54,353	27,165
Development costs expensed		
London Woolstore project	16,838,298	0
Palm Beach and other projects	2,451,972	1,942,652
	19,290,270	1,942,652

#### 5. DIVIDENDS PAID OR PROPOSED

No dividends were paid or proposed during the period (2005: Nil). The company had no franking credits at 31 December 2006 (2005: Nil)

#### 6. INTEREST-BEARING LOANS AND BORROWINGS

During the half year, APGL repaid the following interest bearing debt:

- on 19 September 2006 APGL repaid unsecured notes issued to APGT amounting to \$1,500,000.
- on 19 September 2006 APGL repaid a loan facility provided by Leyshon Pty Ltd amounting to \$1,500,000.
- APGL made repayments on a loan facility provided for the London Woolstore Project. The repayments totalling \$6,493,922 reduced the outstanding balance of the facility from \$11,256,422 at 1 July 2006 to \$4,762,500 at 31 December 2006.

During the half year, APGL borrowed \$6,500,000 from APGT.

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2006

7. CONTRIBUTED EQUITY	Consolidated		Consolidated	
	31 December 2006 Number	31 December 2006 \$	30 June 2006 Number	30 June 2006 \$
Ordinary shares on issue (i)	147,344,359	17,671,088	35,000,000	17,218,110
(i) Fully paid ordinary shares carry one vote per share and carry the right to dividends.				
<i>Movements in ordinary shares on issue</i>			<b>Number</b>	<b>\$</b>
At 1 July 2005			35,000,000	17,218,110
No movements			0	0
At 30 June 2006			35,000,000	17,218,110
Issued in exchange for issued units of Blue Tower Trust			65,533,623	0
Issued for cash on application under prospectus			46,810,736	468,107
Transaction costs on share issue			0	(15,129)
At 31 December 2006			147,344,359	17,671,088

During the period 1 July to 31 December 2006, 46,810,736 stapled securities were issued by the Fund at an issue price of \$1.06 per stapled security (1 July 2005 to 30 June 2006: Nil). The funds raised have been allocated on the basis of \$1.05 per unit in APGT (total to date \$49.15 million) and \$0.01 per share in APGL (total to date \$0.47 million).

In addition, on 19 September 2006 APGT acquired a 99.99% ownership interest in Blue Tower Trust ("BTT") via a takeover in which 65,533,623 stapled securities were issued to existing BTT investors at an issue price of \$1.0591 each. The value of the stapled securities issued have been fully allocated to units in APGT.

## 8. CAPITAL COMMITMENTS AND CONTINGENCIES

The Directors are of the opinion that there are no material capital commitments, contingent liabilities or contingent assets as at balance date that are not already provided for in the financial statements.

## 9. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Directors are not aware of any matter or circumstance not otherwise dealt with in the reports or the accounts that has significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

## **Directors' Declaration**

In accordance with a resolution of the Directors of Australian Property Growth Limited (formerly Leyshon Developments No.3 Limited) we state that, in the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity set out on pages 6 to 13 are in accordance with the Corporations Act 2001, and:
  - (i) give a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and
  - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



N. Summerson  
Chairman

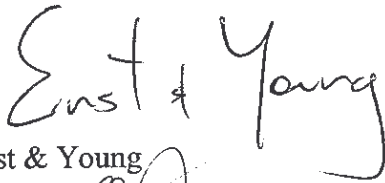


G. McMahon  
Managing Director

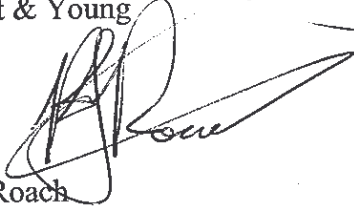
Brisbane, 6 March 2007

**Auditor's Independence Declaration to the Directors of Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited)**

In relation to our review of the financial report of Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited) for the half-year ended 31 December 2006, 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 &amp; Young



R J Roach

Partner

6 March 2007

## **To the members of Australian Property Growth Limited (formerly Leyshon Developments No. 3 Limited)**

### **Report on the Half-Year Condensed Financial Report**

We have reviewed the accompanying 31 December 2006 financial report of Australian Property Growth Limited and the entities it controlled during the period ended 31 December 2006, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in shareholders' interests and condensed cash flow statement for the six months ended on that date, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the 31 December 2006 Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the 31 December 2006 financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the 31 December 2006 financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the 31 December 2006 financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the six months ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Australian Property Growth Limited and the entities it controlled during the six months, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 31 December 2006 financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



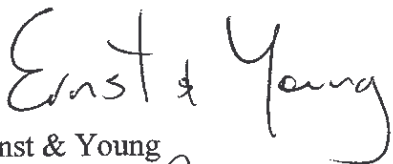
### *Independence*

In conducting our review, we have complied with the independence requirements of 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. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

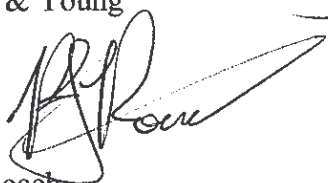
### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Australian Property Growth Limited and the entities it controlled during the period ended 31 December 2006, is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the six months ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



R J Roach  
Partner  
Brisbane  
8 March 2007