



AUSTRALIAN PROPERTY GROWTH FUND

DECEMBER 2007 HALF YEARLY INVESTORS' REPORT

LETTER FROM THE MANAGING DIRECTOR

MARCH 2008

Highlights of the half year to 31 December 2007:

- Half year profit after tax of \$12.7 million
- Net asset value up to \$1.21 per stapled security
- Net assets up 30% to \$260 million
- Internalisation of management company
- Valuation gains on Blue Tower, Melbourne Street assets
- Settlement of Sydney, Melbourne commercial office acquisitions
- Construction begins at Pavilions on 5th, Palm Beach



Geoff McMahon
Managing Director

Welcome to our first Investors' Report for 2008. After the successes of the 2006/07 financial year, in which Australian Property Growth Fund (APGF) grew assets under management to \$1 billion, we are looking forward to another productive year for the Fund.

The new year has begun on an uncertain note for investors globally, with the fallout from the United States sub-prime mortgage crisis hitting debt and equity markets. It is in these times that quality, conservative management becomes even more important.

Fortunately for APGF's investors, the Fund has been built on a strategy of focusing on quality Australian properties with moderate risk profiles that generate long-term capital growth and stable rental income streams.

Furthermore, APGF is conservatively geared, with no off-balance sheet transactions and no exposure to international debt markets. None of the Fund's bank loans mature before late 2009.

Cash reserves as at 31 December 2007 totalled \$28.3 million, and approximately half of the Fund's borrowings are hedged against interest rate rises.

Having only Australian assets, APGF is sheltered from the problems of overseas property markets and will benefit from the strength of Australia's commercial office markets.

Financially, the Fund continues to perform well for investors, recording a half year profit after tax of \$12.7 million. Net assets grew by 30% to reach \$260 million, with a net asset value of \$1.21 per stapled security.

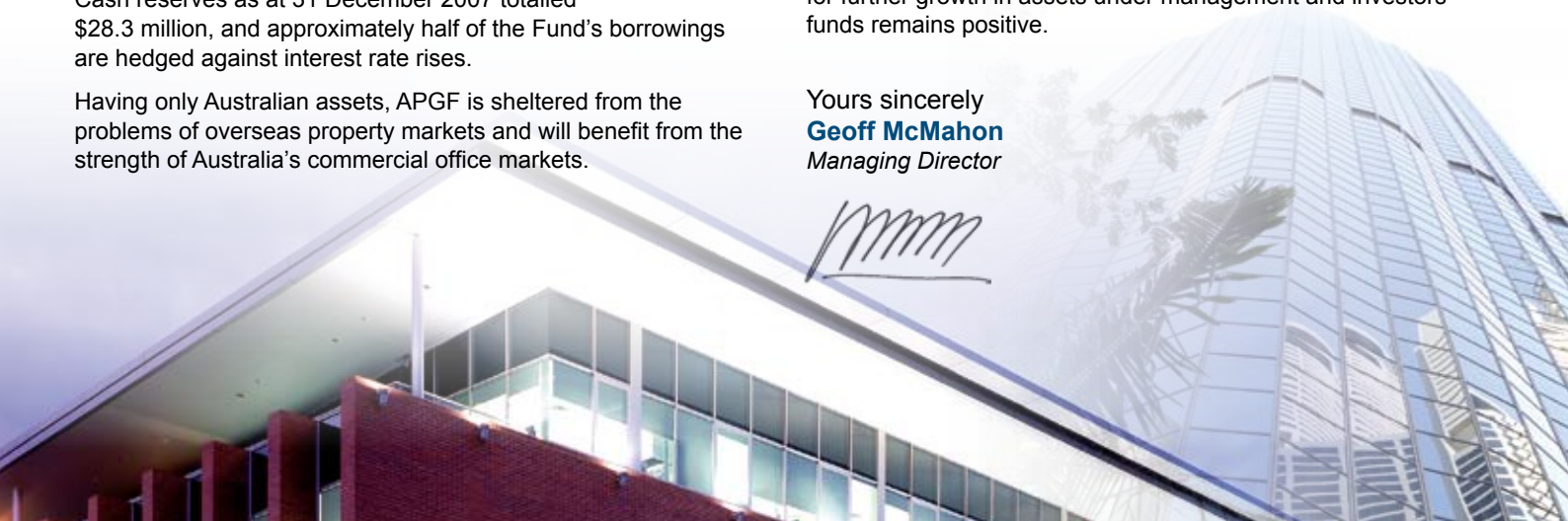
In December 2007, investors voted overwhelmingly in support of the internalisation of APGF's management structure. This was an important step in aligning the interests of the Fund's managers and investors, and ensuring investors receive the full benefit of any future increase in the value of the Fund's properties.

All of the Fund's Trust projects continue to perform well, while construction has begun at APGF's major development project, Pavilions on 5th at Palm Beach.

The Fund's property funds management business, which was acquired in June 2007, has performed in line with expectations.

In summary, APGF's business is built on solid foundations. With cash in the bank, secured borrowings, focused asset management and a conservative acquisition strategy, the outlook for further growth in assets under management and investors' funds remains positive.

Yours sincerely
Geoff McMahon
Managing Director



AUSTRALIAN PROPERTY GROWTH FUND



Blue Tower, Brisbane CBD



99 Melbourne Street, South Brisbane



Westpac Concord Campus, Sydney



Royal Bank Chambers, Collins Street, Melbourne

Blue Tower, Brisbane CBD

Blue Tower is continuing to benefit from the strong demand for prime office space in the Brisbane CBD, which has the country's highest average office rent and a vacancy rate of just 0.7%.

As a quality property in the Brisbane CBD's "golden triangle" district, Blue Tower has benefited from this demand and as of 19 October 2007 was valued at \$290 million. This compares with its \$263 million valuation as at 30 June 2007.

An \$8 million capital expenditure program has been launched to maintain Blue Tower's leading position in the marketplace. This year will see the complete replacement of the airconditioning controls and chillers, and the start of work to modernise the lift system and refurbish the ground floor.



99 Melbourne Street, South Brisbane

Similar to Blue Tower, 99 Melbourne Street enjoyed a valuation gain in the December half year and as of 19 October 2007 was valued at \$35 million, up from its \$33.3 million valuation at 30 June 2007.

Brisbane's city fringe office market is currently among the tightest in Australia's non-CBD office markets, with a vacancy rate of just 2%, according to the Property Council of Australia.

Located a stone's throw away from the CBD, 99 Melbourne Street is well placed to benefit from the spill over of demand for central city office space and remains fully leased.



Westpac Concord Campus, Sydney

In October 2007, APGF completed the acquisition of the Westpac Concord Campus in Concord West, Sydney, for \$60.75 million.

Comprising 16,500 square metres of office accommodation, 485 car parks and other facilities, the property is solely occupied by Westpac Bank on a lease that runs until 1 October 2012.

Westpac Concord has performed well since acquisition and is providing APGF with a stable income stream.

Sydney office vacancies hit an 18-year low in January and Westpac Concord's excellent location means it is well positioned to capitalise on this demand growth.



Royal Bank Chambers, Melbourne

Settlement on the \$30.5 million Royal Bank Chambers building on Collins Street, Melbourne, was completed in October 2007, adding to APGF's blue chip office portfolio on the east coast.

ANZ Bank has a 10-year lease over the retail Banking Chamber, while the nine upper floors are leased until 31 December 2009. This gives APGF the opportunity to reposition the property in two years' time.

The Melbourne CBD vacancy rate has hit a record low of 4.4%, and analysts expect strong rental growth due to low supply and the strength of the state economy.

UPDATE ON CURRENT DEVELOPMENT PROJECTS



Construction begins at Pavilions on 5th



Construction has begun on stage one of the \$120 million Pavilions on 5th project, which will see the development of 104 residential apartments and 3,100 square metres of retail space by early 2009. Stage one of the project is now substantially de-risked as 45 apartments are under unconditional sales contracts, while approximately 90% of the stage one retail precinct has been pre-leased.

The development will ultimately comprise 194 one, two and three-bedroom apartments, and is being built over two stages by 2010. The project will incorporate a new retail shopping centre, including a full-service Coles supermarket, pharmacy, newsagency, medical centre, cafes and restaurants.

Described as a "tiny Tedder Avenue" by some locals, many of the new buyers hail from the Gold Coast and Brisbane and are seeking to take advantage of the area's lifestyle benefits. To take advantage of this opportunity, contact Sales Manager Jim Griffin on (07) 5534 3876 or visit www.pavilionson5th.com.au.



Artist's impression of Pavilions on 5th retail precinct

UPDATE ON PROPERTY FUNDS MANAGEMENT

APGF's property funds management business continues to perform well, with the business currently encompassing 33 properties contained in 21 property trusts/syndicates with a total value of approximately \$400 million.

The APGF Diversified Property Fund is open for subscription, offering investors direct exposure to eight commercial office and retail properties across Australia with a current market valuation of approximately \$136 million.

Importantly for investors in the trusts/syndicates, as unlisted direct property investments they are not exposed to the volatility of the listed property trust sector. As an indirect conduit to pure real estate, the asset fundamentals drive the valuations and they are also funded by traditional secured Australian bank mortgages with a conservative level of gearing.

Like APGF itself, this transparency and simplicity is an attractive feature for investors in the present climate.



Country Road Headquarters, Melbourne



In December 2007, APGF investors overwhelmingly approved the internalisation of the Fund's management structure, with the purchase by the Fund of its responsible entity and management company, APGF Management Limited.

The purchase price was \$50 million, which consisted of the issue of 33,333,333 stapled securities at \$1.20 each (total value \$40 million) and \$10 million in cash (to fund capital gains tax). The transaction was assessed as fair and reasonable by independent experts PricewaterhouseCoopers.

The move ensures investors will receive the full benefit of any future increase in the value of the Fund's properties as no performance fees will be payable to external parties. By having key management personnel directly employed by the Fund, it removes any potential for conflicts of interest and aligns the interests of investors and managers.

Additionally, the move gives APGF the opportunity to improve returns to investors through the establishment of specialised managed property funds.



FINANCIAL RESULTS

APGF enjoyed another strong financial performance in the half year ended 31 December 2007, with a profit after tax of \$12.7 million. Total revenue increased 88% to \$46.1 million, compared with the previous period's \$24.4 million.

Net assets grew 30% to \$260 million, producing a net asset value of \$1.21 per stapled security. Earnings per stapled security for the half year amounted to 7.5 cents.

Investors continue to benefit from the Fund's growth, with a distribution declared for the quarter ending 31 December 2007 of 2.41 cents per stapled security, which was paid on 31 January 2008.

All distribution payments are forecast to be non-taxable as they are fully tax-deferred.

On 28 December 2007, the Fund announced the successful placement of approximately 13.7 million stapled securities at \$1.20 each.

The \$16.4 million raised will be invested in the Fund's existing and future projects, with the capital raising having been approved by investors during December's Extraordinary General Meeting.

A copy of the Fund's interim consolidated financial statements for the December 2007 half year is available at www.apgf.com.au or by contacting APGF on (07) 3004 1222.

OUTLOOK

Despite the well publicised turbulence on global equity and credit markets, the outlook for continued growth in APGF investors' funds remains positive.

The Fund has a strong platform for further growth in assets under management, which during the 2006/07 financial year reached \$1 billion, diversified both geographically around Australia and also across the property sectors of commercial office, industrial, residential and retail.

APGF's cash reserves, conservative gearing, hedging of half its borrowings against interest rate rises and no bank loan maturities until late 2009 mean the Fund is well positioned in the current climate.

The Fund's portfolio of quality, cash-flow producing properties is performing well and the focus on Australia means there is no exposure to the troubled US and European property markets.

APGF continues to seek quality properties that offer long-term capital growth and stable rental income streams, including in the commercial office, retail warehouse, industrial, retail and residential sectors.

Opportunities to expand the Fund's \$400 million property funds management business will also be keenly sought, while external wholesale unlisted property funds are another potential source of growth.

APGF Contact Details:

Level 1, 295 Elizabeth Street
BRISBANE QLD 4000

T (07) 3004 1222

Website

www.apgf.com.au

Email

info@apgf.com.au

“APGF's quality Australian property assets and conservative acquisition strategy have positioned it well for the current climate”