APGF
AUSTRALIAN PROPERTY GROWTH FUND

INVESTORS' REPORT 2007/8 September 2008

Geoff McMahon
Managing Director

LETTER FROM THE MANAGING DIRECTOR

The 2007/8 financial year has been a watershed year for the property funds management industry. An unprecedented global credit crisis has damaged investor confidence and reduced equity and property prices worldwide. Global capital markets have become illiquid, with access to debt and equity both limited and expensive.

While conditions remain challenging, APGF remains in a good position to take advantage of opportunities arising from the current volatile climate.

The Fund has a portfolio of quality properties with moderate risk profiles that provide long-term capital growth and stable rental income streams.

APGF is focused on Australia, with no exposure to international debt markets. Cash reserves as of September 2008 totalled $30 million, and there are no bank loan maturities until late 2009.

Financially, APGF reported an underlying net profit after tax of $6.5 million for the full year. Net non-cash property revaluations and asset impairment losses totalling $12.6 million (around 2.5% of total assets) resulted in an accounting net loss after tax of $6.1 million. Net assets grew 16% to reach $232 million, with a net asset value per security of $1.08.

Assets under management increased to $947 million with the acquisition of the Westpac Concord Campus and Royal Bank Chambers properties.

Meanwhile, construction began at the $125 million Pavilions on 5th project, while the other development project, London Woolstore, fully sold out.

When considering the results, it is important to note that APGF's property investments are long-term assets not intended to be sold in the short term.

Like other groups, the Fund has been affected by changes in the sales capitalisation rates adopted by valuers and the negative sentiment towards the property funds management sector.

Looking ahead, APGF is undertaking a new capital management strategy. Distributions are to be brought into line with earnings, with the aim of ensuring the sustainability of investor returns.

The Fund will also be making a placement of stapled securities at 80 cents each, with the funds raised to be used for acquisition opportunities.

In uncertain times like the present, it is important to look through short term volatility and negativity and focus on medium and long term fundamentals.

The fundamentals for the Australian economy and its major property markets remain intact, and investor sentiment will inevitably brighten.

Having experienced the credit crunch of the early 1990s, APGF's management team has the ability to continue growing the Fund as one of Australia's leading quality property groups.

Yours sincerely

Geoff McMahon
Managing Director

2007/8 Key Features

- Underlying net profit after tax of $6.5 million (accounting net loss after tax of $6.1 million)
- Net asset value per stapled security of $1.08
- Growth in net assets to $232 million (up 16%)
- Assets under management of $947 million (up 6%)
- Acquisition of Sydney, Melbourne commercial properties
- Construction started at Pavilions on 5th, Palm Beach; sell-out of London Woolstore

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UPDATE ON CURRENT TRUST PROJECTS

BLUE TOWER

Brisbane CBD

APGF has launched the most significant capital expenditure program in Blue Tower's 23-year history, with an $8 million services upgrade underway through to 2010 aimed at maintaining the building's leading position in the prestigious Golden Triangle district of the Brisbane CBD.

Design work on the new ground floor refurbishment has been completed, with construction works set to commence in 2009.

The project will see new finishes and fixtures to fully modernise the entry space, including new glass panelling on all core walls, a new security desk and a new look directory board.

Other planned works include new airconditioning chillers and controls, fully modernised lifts, and new tenant amenities aimed at maintaining the building's strong position in the marketplace.

Brisbane remained the second tightest CBD office sector in Australia in the June quarter. This was despite a slight increase in the office vacancy rate to 1.2% from the record low of 0.7% in January 2008.

Vacancies are forecast to remain low through to 2011, with the underlying market strength forecast to continue.

This has led to another increase in the valuation for Blue Tower, which rose 11% over the full year to reach $291 million (30 June 2007 valuation $263 million).

99 MELBOURNE STREET

South Brisbane

Located in Brisbane's fast-growing South Bank precinct, 99 Melbourne Street has been fully occupied since its opening in early 2005 and remains one of the Fund's key commercial office buildings.

Brisbane's near-city market continues to exhibit strong growth and vacancy rates have been tight during the past year. After recording a vacancy rate of only 1.3% in July 2007, increased supply boosted the rate to a more sustainable 3.2% as of July 2008.

The Fund acquired the building in December 2004 for $24.5 million.

As of 4 August 2008, it was valued at $31 million (30 June 2007 valuation $33.3 million).

WESTPAC CONCORD CAMPUS

Sydney

Westpac Concord Campus was acquired by APGF in October 2007. Located in Concord West, just 15 kilometres from the Sydney CBD, the commercial/business park development has 16,500 square metres of office accommodation along with other facilities and is fully leased to Westpac Bank.

Sydney's office market remains tight with a vacancy rate of only 4.3% as of July 2008.

APGF considers Westpac Concord Campus to have excellent potential for repositioning and continued rental growth.

As of 18 August 2008, it was valued at $55.4 million (4 July 2007 valuation $60.7 million).

ROYAL BANK CHAMBERS

Melbourne

APGF completed the acquisition of this classic sandstone building in Melbourne's prestigious Collins Street in October 2007.

Fully occupied by ANZ Bank, APGF will gain the opportunity to reposition the property in 2010, when its nine upper floors become available for releasing.

Melbourne's CBD office market had a vacancy rate of 3.1% as of July 2008, a new record low.

Royal Bank Chambers has gained in value as a result, with a valuation of $30.75 million as of 7 August 2008 (12 September 2007 valuation $30.5 million).

UPDATE ON CURRENT DEVELOPMENT PROJECTS

PAVILIONS ON 5TH, Palm Beach

Spearheading the makeover of Palm Beach, APGF's $125 million Pavilions on 5th project has made substantial progress. Construction has started on stage one (see left), which will see the development of 104 residential apartments and 3,100 square metres of retail space by March 2009.

Stage one has now been substantially de-risked, with 58 apartments under unconditional sales contracts and 90% of the retail precinct pre-leased. The project will eventually comprise 194 one, two and three-bedroom apartments, built over two stages through to 2010.

Stage two is set to be released later this year, comprising another 90 apartments and a dedicated dining and cafe precinct.

Gold Coast rental growth is averaging 12% a year and with the population forecast to top 600,000 permanent residents by 2010, analysts see strong demand for affordable beachside developments such as Pavilions on 5th.

APGF is now offering three-year rental guarantees on selected apartments for a limited period. For more information, contact Sales Manager Jim Griffin on (07) 5534 3876 or visit **www.pavilionson5th.com.au**.

LONDON WOOLSTORE, Brisbane

The $50 million London Woolstore project at Teneriffe on the Brisbane River fully sold out, with all 89 residential apartments and ground-level retail shops reaching settlement by February 2008.

ULLADULLA, NSW

A non-cash impairment loss of $10 million was recorded in the Fund's 2007/8 result on the group's interest in two residential land subdivision projects on the New South Wales south coast. APGF's interests in these properties were gained from the acquisition of a property funds management business in mid-2007.

The two Ulladulla land subdivisions are good quality projects, but have been affected in the short term by the downturn in the NSW residential market and the global credit crisis.

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PROPERTY FUNDS MANAGEMENT

APGF's property funds management business continues to perform profitably. The 19 property trusts/ syndicates contain 31 properties, and recent valuation updates resulted in the total value of the properties increasing from $384 million to $433 million.

During 2007/8 the Fund successfully integrated the operations of the business, which was acquired in mid-2007. A new APGF office was established in North Sydney, all accounting and compliance functions were centralised to Brisbane and all registry functions were outsourced.

The carrying value of the goodwill in the property funds management business was reduced from $15.5 million to $10.5 million, resulting in a non-cash impairment loss of $5 million for 2007/8. This was due to the conservative assumption of no future fee income from new acquisitions.

FINANCIAL RESULTS

APGF delivered another solid result in 2007/8, with an underlying net profit after tax of $6.5 million. Net non-cash property revaluations and asset impairment losses of $12.6 million produced a net accounting loss after tax of $6.1 million.

Net assets grew 16% on the prior year to $232 million, with a net asset value per security of $1.08. Assets under management rose 6% to $947 million.

On 31 December 2007, APGF internalised the Fund's management structure with the purchase by the Fund of its responsible entity and management company, APGF Management Limited, for $50 million.

For more financial information, see **http://www.apgf.com.au/reports.asp**.

CAPITAL MANAGEMENT

APGF is undertaking a new capital management strategy under which distributions will be brought into line with earnings, with the aim of ensuring sustainable long-term investor returns.

With the slump in returns from the listed property sector, analysts have urged investors to seek funds with quality income streams based on solid tenants and long-term leases, and this is exactly what APGF delivers.

Under the new policy, the current distribution per stapled security (DPS) of 9.6 cents will be maintained through to 31 December 2008, with a DPS of 7 cents forecast for the half year from January to June 2009.

From 1 July 2009, distributions will be based on earnings, with the aim of ensuring the sustainability of investor returns.

The Fund will also be making a placement of stapled securities at 80 cents each. Priority will be given to existing investors in the offer, which is aimed at securing additional funds for counter-cyclical acquisitions.

The placement is being made at a 25% discount to net asset value, in line with APGF's ASX-listed peers. To participate, contact APGF by telephone on (07) 3004 1222, or by email at **info@apgf.com.au.**

OUTLOOK

Amid a global credit crunch described by Alan Greenspan as the United States' worst crisis since 1945, global equity and property markets have suffered from a loss of investor confidence and falling asset values.

APGF has not been immune to this fallout, but the Fund's strong cash reserves and quality assets place it in a good position.

The fundamentals of Australia's economy and its property markets remain intact, with consistent economic growth forecast for the medium to longer term.

APGF's asset and geographic diversification around Australia gives the Fund a reduced level of risk. There are no overseas assets and no overseas debts, giving a solid domestic platform on which to expand.

The focus remains on quality projects with moderate risk profiles that generate long-term capital growth and stable rental income streams.

APGF considers the current environment an excellent opportunity for counter-cyclical acquisitions where management can add value.