

AUSTRALIAN PROPERTY GROWTH FUND

Chairman's Address to Members 28th November 2008

Ladies and Gentlemen

It gives me great pleasure to address you at the Annual Meeting of the Australian Property Growth Trust (APGT) and Australian Property Growth Limited (APGL) together referred to as the Australian Property Growth Fund (APGF).

The past year has been described as the worst global financial crisis since the market crash of the 1930's. Like the roaring twenties before the crash, our economy had been going from strength to strength until the beginning of the liquidity crisis in mid 2007.

Investors would be aware that the problems of this crisis began with the failure of large United States institutions that were exposed to poor quality or sub-prime mortgage loans. In 2008, a total of 15 Banks failed in the United States with many others rescued by acquisition or government intervention.

All Australians should take comfort in the fact that our economy has not, and will not in the foreseeable future, experience problems to this degree. We are fortunate that the Australian banking industry is one of the strongest and most regulated in the World.

The repercussions from these sub-prime problems did however create substantial fear in the consumer market and an upward re-pricing of risk, which greatly increased costs for all banks to secure their funding. This had a snowballing effect around the world and no country was able to escape the turmoil this created. The result was that the increased costs were passed on to Bank's customers and this added cost dramatically affected the profits of all Property Trusts.

Some of the listed (and unlisted) Property Trusts have failed and all have been battered on the markets. Several Property Trusts are trading at a fraction of their net asset value which must be devastating for the share/unit holders. The Managing Director will talk more about the sector in his address.

During 2007 most of the property that was of interest to the Board to add to the Fund's Investment Portfolio was being sold on yields that were totally unrealistic. Management spent many hours putting together bids for properties only to lose out time and time again to others (individuals and other Funds) who paid very high amounts. The Board was firm in its resolve to ensure it stuck to the Fund's investment fundamentals – key properties in capital cities that had good prospects for increased value. The numbers had to work in our favour otherwise the decision was made to walk away. We are now reaping the rewards of sticking to those fundamentals.

The credit crisis has made all companies review their strategies and we are no exception. As financial institutions in general have curtailed their exposures to the property market then our ability to borrow has become more difficult. This has resulted in our looking at opportunities to acquire Responsibility Entities who have management rights over property funds. An example of this was our acquisition of the Elderslie Property Funds Management Business in 2007 and we see further opportunities emerging which the Board believes will add considerable value for APGF stapled security holders.

In addition we have a placement opened at 80 cents per stapled security to raise capital to acquire property assets in a counter cyclical strategy. Management has had great success in this strategy over 20 years. The Board is hopeful of completing this capital raising to enable APGF to acquire additional property assets.

The Managing Director will talk more about the Financial Statements later but it is pleasing to note that our independent revaluations in June 2008 resulted in minimal adjustments with the exception of the development land in Ulladulla on the NSW Central Coast. The Board is not concerned with this (non – cash) write down or indeed the investment. It was acquired as part of the Elderslie transaction and was always viewed as a long term holding. There is no pressure on the Fund to sell and therefore no loss will be crystallized.

It has been announced that the Board will reduce the distribution per stapled security from the current 9.6 cents to 7 cents effective from 1 January 2009 and then to cash earnings per stapled security from 1 July 2009. Whilst it is acknowledged that this may cause some investors some inconvenience the Board believes that it is prudent to conserve cash and to not pay out distributions that are not realized. This is consistent with almost all other Property Funds.

The Board is hopeful that with interest rates falling quickly the interest savings will flow direct to the bottom line to benefit the cash earnings available for distribution. The Board is not in a position to give any guidance at this time as to what the cash earnings per stapled security might be in 2009/2010.

I want to pay tribute to the management both in Brisbane and Sydney who have done a fantastic job during a very difficult year. They have been led by an excellent Managing Director in Geoff McMahon who has built a great team around him.

Finally I would like to thank the investors who continue to see great opportunities in APGF and who continue to support the Fund.

A handwritten signature in black ink, appearing to read 'Summerson', with a stylized, cursive script.

Neil Summerson
Chairman

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