AUSTRALIAN PROPERTY GROWTH FUND

INVESTORS' REPORT

March 2009

DECEMBER 2008 HALF-YEARLY RESULTS

Geoff McMahon
Managing Director

LETTER FROM THE MANAGING DIRECTOR

Welcome to our first Investors' Report for 2009.

The year has commenced with increased uncertainty for investors as the unprecedented global economic crisis continues to deepen.

The financial crisis has resulted in most of the major economies of the developed world contracting or descending into recession. China and developing Asian economies have also slowed markedly and the repercussions are being felt in Australia.

Despite the relative strength of the Australian economy and the adoption of aggressive fiscal and monetary policy measures by the Federal Government and the Reserve Bank, economic conditions in Australia continue to deteriorate.

No market, asset class or sector has been spared from the fallout of the crisis. The Australian property sector, in particular, has been adversely impacted due to a lack of credit available for property investment. Valuations of all property classes and quality have been negatively impacted. As a measure of the impact, the market capitalisation of ASX-listed real estate investment trusts has dropped by approximately 75% since January 2008.

COMPANY OVERVIEW

While the current economic climate is presenting its challenges, APGF remains in a solid position.

Importantly, APGF's property investments and strategies are directed towards the long-term.

We are proactively managing the impact of the current market conditions with a determined focus on risk minimisation, capital management and cost efficiencies.

However, we are also seeking counter-cyclical opportunities which are presenting themselves in the current market.

APGF's management team has decades of experience and an excellent track record of securing transactions with strong investment fundamentals across numerous market cycles and a diverse range of property sectors.

APGF and its predecessor company grew through the credit crunch of the early 1990s and the Fund has strong experience in making successful counter-cyclical investments and adding value to those investments.

The negative sentiment towards property has caused rising sales capitalisation rates and falling property values. This has adversely impacted on APGF's first half result.

APGF's 1H09 statutory accounting result is a net loss after tax of $23.2 million. This includes non-cash items which do not directly relate to the performance of APGF's operating business. These non-cash items include property revaluations and asset impairment losses totalling $26 million (approximately 5% of total assets).

Continued on page 2

1H09 KEY FEATURES

- Underlying profit after tax of $2.7 million;
- Accounting net loss after tax of $23.2 million (includes non-operating asset devaluations and impairments of $26 million);
- Net asset value per stapled security of 91 cents;
- Net assets of $208 million;
- Assets under management of approximately $927 million;
- Cash of $30 million as at 31 December 2008;
- No investment property loan maturities until March 2010;
- Complying with all bank loan covenants;
- Construction and sales of Stage 1 Pavilions on 5th Palm Beach well advanced;
- APGF has acquired the Domaine property funds management business; and
- Other excellent acquisition opportunities are emerging.

APGF Australian Property Growth Fund

Geoff McMahon
Managing Director

LETTER FROM THE **MANAGING DIRECTOR**

continued from page 1

CAPITAL MANAGEMENT

APGF has maintained a sound capital position with approximately $30 million in cash at 31 December 2008.

We continue to comply with our debt covenants and to manage our refinancing risk with no investment property loan maturities until March 2010.

APGF's major shareholder, Leyshon, has demonstrated continued support of our strategy through the investment of a further $9 million in APGF in December 2008. This capital raising will assist our response to any further deterioration of economic conditions.

DISTRIBUTIONS

An annualised distribution of 7 cents per stapled security (DPS) will be paid for the March 2009 quarter. In September 2008, Directors announced that APGF's distributions will be brought into line with operating earnings. Consistent with this policy, and reflecting the deteriorating economy and property markets, the distribution will be reduced to 5 cents from 1 April 2009. The distribution rate from 1 July 2009 will be further reviewed to ensure distributions remain aligned with the consequences of changes in economic and property markets.

NEW ACQUISITION

Consistent with APGF's track record in taking advantage of counter-cyclical investment opportunities, we are expanding APGF's property funds management business.

APGF is acquiring the Domaine property funds management business, comprising the management of several significant unlisted property funds with approximately $625 million of property assets.

The acquisition achieves numerous strategic objectives and provides several key benefits to APGF. The transaction offers an attractive return on equity and fits well with APGF's strategy of increasing recurring earnings. It also provides significant synergies, while increasing our investor base and growing our funds under management to approximately $1.6 billion.

Importantly, APGF management has proven expertise in acquiring and integrating new businesses into the APGF structure, as evidenced by the successful integration of the former Elderslie property funds management business which was purchased by APGF in June 2007.

CONCLUSION

With our experienced management team and a portfolio of quality assets, we are confident of seeing through the current economic climate and delivering sustainable long-term returns to our shareholders and investors.

Yours sincerely

Geoff McMahon
Managing Director

UPDATE ON CURRENT **TRUST ASSETS**

BLUE TOWER

APGF is delivering the most significant capital expenditure program in Blue Tower's 23-year history, with the $8 million services upgrade underway. New air-conditioning chillers and controls have already been installed as part of the modernisation program, which will also include new lifts. The services upgrade will continue over the coming 18 months and is designed to maintain the building's strong position in the marketplace.

Brisbane's CBD office market remains sound, although economic volatility has led to a short-term reduction in tenant demand.

Many proposed office development projects have been deferred, which will produce the benefit of reducing future supply.

Blue Tower's valuation was reduced by $10 million to a carrying value of $281 million at 31 December 2008, representing a 3.5% reduction over the past six months.

99 MELBOURNE STREET

Located in Brisbane's fast-growing South Bank precinct, 99 Melbourne Street has been fully occupied since it opened in early 2005 and remains a quality commercial office building.

Reflecting the negative property market sentiment, the building's valuation was reduced by $2 million to $29 million at 31 December 2008, representing a 6.5% reduction over the past six months.

UPDATE ON CURRENT **DEVELOPMENT PROJECTS**

WESTPAC CONCORD CAMPUS

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. This development has long-term prospects for repositioning.

As at 31 December 2008, the development was valued at $50.9 million, recording a $4.5 million reduction (approximately 8%) over the past six months.

ROYAL BANK CHAMBERS

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

The building is fully occupied by ANZ Bank and APGF will gain the opportunity to reposition the property in 2010, when nine upper floors become available for re-leasing.

ANZ is due to vacate the upper floors of the building in December 2009 and planning for the refurbishment and re-leasing process is well advanced.

As at 31 December 2008, the building was revalued to $27.8 million, representing a $3 million decline (approximately 10%) on its previous valuation six months ago.

PAVILIONS ON 5TH, Palm Beach

Construction of Stage 1 of APGF's $125 million Pavilions on 5th mixed retail and residential project has continued to make solid progress and is expected to be completed in the June 2009 quarter.

Stage 1 retail construction was completed pre-Christmas 2008 with most tenants, including the Coles Supermarket, opening for the Christmas period.

Construction of the residential apartments in Stage 1 is almost complete with settlements commencing in mid-2009.

Stage 1 of the project has been substantially de-risked with 64 of the 104 apartments under unconditional sales contract and 90% of the retail precinct pre-leased.

While residential apartment sales have slowed as a result of the property downturn, sales continue to be steadily achieved at the full list price.

Stage 2 of the project will commence once the majority of the Stage 1 apartments are settled and sufficient Stage 2 pre-sales are secured.

For more information on the project, please contact Sales Manager Jim Griffin on (07) 5534 3876 or visit **www.pavilionson5th.com.au**

ULLADULLA, New South Wales

Both of APGF's Ulladulla land subdivisions are quality projects, but they have been adversely affected by the downturn in the New South Wales residential market.

As a result, APGF has booked a non-cash impairment loss of $2 million in the Fund's half-yearly result.

APGF gained its interest in these properties through the acquisition of a property funds management business in mid-2007.

PROPERTY FUNDS **MANAGEMENT**

APGF's property funds management business continues to operate in accordance with expectations.

The 19 Property Trusts/Syndicates contain 31 properties and recent valuation updates resulted in the total value of the properties under management decreasing from $433 million to $420 million.

The business, which was acquired in mid-2007, has now been fully integrated into APGF's asset management and financial management systems.

The directors believe the business will continue to contribute significant benefits to APGF despite the downturn in the property sector. Accordingly, the carrying value of the goodwill in the property funds management business has been maintained at $10.5 million in the 31 December 2008 accounts.

Increasing sales capitalisation rates and falling interest rates are providing favourable financial metrics for the establishment of new individual property syndicates which will be attractive to investors. This will give APGF the opportunity to create new property syndicates and expand its property funds management business during the coming 12 months.

ACQUISITION OF THE DOMAINE PROPERTY FUNDS **MANAGEMENT BUSINESS**

The Domaine acquisition fits perfectly with APGF's strategy to acquire businesses which enable us to utilise our strong property funds management expertise to maximise returns from properties under management.

The acquisition is expected to generate significant recurring income from management fees paid to APGF as the Responsible Entity of the funds.

APGF has a strong brand in the unlisted property fund market and we have well established expertise in sourcing and managing properties for investment and development. Further strengthening our property funds management platform with the Domaine acquisition will add further value for our investors.

The acquisition of this new property funds management business, together with a future project pipeline, creates a new range of options for APGF to manage and reposition the funds, and will best serve the interests of the Domaine investors.

The increase in market share provided by this latest acquisition also places us in a strong strategic position in the property funds management sector and enhances our ability to continue to grow the business when market conditions improve.

OUTLOOK

While the impact of the global financial crisis has led to significant challenges and turmoil in financial markets and the property industry, it will also yield excellent opportunities for counter-cyclical acquisitions where our strong management team can add value.

As demonstrated by APGF's acquisition of the Domaine property funds management business, APGF has the necessary financial resources and management expertise to take advantage of these conditions.

APGF has not been immune to the fallout from the global financial crisis but the Fund's strong cash reserves and quality assets place it in a solid position.

With no overseas assets and no offshore debts, APGF has a solid domestic platform from which to expand.

We also understand the importance of looking through the short-term volatility and the negativity which prevails in the market, to focus on medium and long-term fundamentals. This has proved to be a critical strength in our past and will be a key focus in building our future ■

AUSTRALIAN PROPERTY GROWTH FUND
Level 1, 295 Elizabeth St, Brisbane, QLD 4000
T: [07] 3004 1222 **F:** [07] 3003 0122

info@apgf.com.au www.apgf.com.au