

AUSTRALIAN PROPERTY GROWTH FUND

Chairman's Address to Members 26th November 2009

Ladies and Gentlemen

The year ended 30th June 2009 has been an extremely challenging one for APGF. Indeed it is fair to say that the period since September 2007 has been the most difficult for the commercial property sector in Australia for 18 years.

September 2007 was the month in which securitization of residential and chattel mortgages closed for the Banks worldwide and consequently Banks were forced to rationalize their lending into the commercial property sector.

As you may know Lehmanns Brothers collapsed in October 2008 and this further saw the already fragile banking sector retract even further. In Australia the Federal Government moved quickly to provide Government guarantees on bank deposits under \$1m and to provide Banks with a Federal Government guarantee to access wholesale debt markets. In addition the Office of Financial Management was allocated an initial \$8b to repurchase mortgages to replace the securitization market. This was recently extended by another \$8b.

Most Banks found themselves with a situation where they were "over-weight" in property. This has led to a rationalization of their portfolios and in turn a reduction in their appetite to finance property acquisitions. This has had the dramatic effect of effectively closing the property market for large transactions – the very market APGF is in.

In addition as the market contracted the valuations fell and generally valuations in the commercial and industrial property sectors are off approximately 20% from the highs of December 2007.

The major listed AREITs found themselves in difficult circumstances and went to the market to raise additional capital. This came at a cost however and most had to heavily discount their offer price to raise the required equity. The AREIT share prices have still not recovered anywhere near other industrials stocks on the ASX.

It would appear from comments expressed by the major AREITs and property consultants that property values have almost reached the bottom. The sector seems to be returning to some normality with the exception of funding for major transactions. In my opinion we will NOT see an increase in values until the Banking sector is able to fund major property transactions. This could be a year or two from now.

APGF has not been immune from the fallout of the GFC. We have seen a drop in values, we have experienced tightening of Bank credit and resetting debt obligations and we have experienced a slowdown in selling residential apartments in our development at Palm Beach. As a non-ASX listed Fund we have not had the access to capital that the listed AREITs have had, however to date this has not presented us with difficulties with our bankers. I should point out however that our major shareholder, Leyshon Group, continues to demonstrate its support for the Fund and invested a further \$9m in APGF in December 2008.

We continue to comply with all bank debt covenants and have no major property investment loan maturities in APGF until September 2011.

The Fund's capital management strategy is to ensure distributions are in line with underlying operating earnings so as to ensure sustainability of investor returns. Consequently the distributions were reduced to 3.5 cents per stapled security per annum from 1 July 2009. The Board obviously wants to increase this distribution rate and are exploring opportunities to do so but it may be some time before we are able to achieve this outcome.

The Fund has \$20m in cash and our cash flow forecasts going out over the next few years show us as cash flow positive from operations.

In times like these there are attractive potential acquisitions and buying the Domaine Property Funds Management business in March 2009 was an excellent opportunity for APGF. The Board believes that Management has proven experience in acquiring and integrating new businesses into the Fund's structure as evidenced by the successful integration of the former Elderslie Property Funds Management business which was purchased in June 2007 and now the Domaine Property Funds Management business. We will continue to look for these types of property funds management businesses and we are already being recognized as somewhat of a consolidator in this sector.

Despite the difficulties we have encountered this year I believe your Board has put the Fund into a good position to exit the GFC in a very good position.

My thanks go to Geoff McMahon, the Managing Director, and his staff for a very good job during the year and to my fellow Board members for their excellent contribution to ensuring the Fund maintained its momentum during these difficult times.

On behalf of the Board, I also want to thank and acknowledge our investors for their loyalty and support during this volatile and challenging period.



Neil Summerson
Chairman

26th November 2009