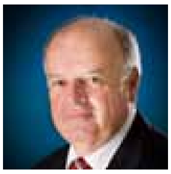
Australian Property Growth Fund

SEPTEMBER 2010

INVESTORS' REPORT 2009/10



Neil Summerson
Chairman

Geoff McMahon
Managing Director

2009/10 KEY FEATURES

- Underlying profit after tax of $8.6 million;
- An accounting net profit after income tax of $0.7 million* which is a $64.7 million turnaround in financial performance compared to 2008/09;
- Net asset value per stapled security of 67 cents;
- Net assets of $152.8 million;
- Assets under management of approximately $1.8 billion;
- Cash of $17 million as at 30 June 2010;
- No major investment property loan maturities until September 2011;
- Compliance with all bank loan covenants;
- Continued counter-cyclical acquisition and integration of property funds management businesses with PFA acquired in April 2010;
- Other excellent acquisition opportunities are emerging;
- Property valuations stabilising; and
- Unconditional sale of 99 Melbourne Street, South Brisbane for $28.5 million (which is $2.5 million over the December 2009 valuation).

** Includes non-operating and non-cash asset devaluations and impairments of $7.9 million*

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

ECONOMIC ENVIRONMENT

APGF's operations and performance continue to be adversely impacted by the fallout from the global economic downturn and the resultant credit squeeze in Australia, which commenced in late 2007. While uncertainty about the global economy remains high, the Australian economy continues to perform soundly relative to its North Atlantic peers. However, economic conditions in Australia are subdued in all sectors with the exception of mining and resources.

PROPERTY MARKET

Commercial property continues to be the weakest sector in the Australian economy with financing constraints and costs remaining significant issues. However, it appears we are at or close to the lowest point in the commercial property valuation cycle. This is evidenced by the results of APGF's latest round of property valuations for the 30 June 2010 accounts. These valuations declined by less than half a percent in the six month period since 31 December 2009 across APGF's $1.8 billion property portfolio. This is particularly pleasing as the fall in valuations has been a major issue over the past three years.

However, the outlook for the Australian property market in general remains subdued for the next 12 to 18 months, as bank finance is likely to remain constrained and costly. Financing constraints will remain the most significant issue confronting Australian property over this period. As a result, valuations are expected to move sideways or increase marginally during this phase of the property cycle.

Importantly, demand and supply fundamentals, in most property markets, are in reasonable balance. As the economy recovers, tenant demand will lift and eventually flow through to rents and values, but this is likely to be delayed until 2011/12.

2009/10 RESULT

Significantly, the 2009/10 financial year saw APGF return to profitability with a profit after tax of $0.7 million. This result represents a financial turnaround of $64.7 million on the 30 June 2009 result. While the quantum of the 2009/10 profit after tax is minimal, it is a key sign to our investors that we are in recovery mode and rebuilding value.

APGF's net asset value per stapled security as at 30 June 2010 is 67 cents (30 June 2009, 70 cents).

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CHAIRMAN AND
MANAGING DIRECTOR'S REPORT

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CAPITAL MANAGEMENT

APGF continues to respond proactively to the challenging credit and property market conditions to minimise risk and efficiently manage its capital base.

The Fund has maintained a sound capital position with approximately $17 million in cash at 30 June 2010.

The Board is very conscious of the impact of dilutive and discounted equity raisings on existing security holders. APGF has not undertaken an equity raising during the past financial year.

APGF continues to comply with all of its debt covenants and there are no major property investment loan maturities until September 2011.

The Fund's capital management strategy is to target distributions that are in line with underlying profits with the aim of ensuring the sustainability of investor returns. The distribution rate was held constant at 3.5 cents per stapled security per annum throughout the 2009/10 financial year and is likely to be maintained at this rate in 2010/2011.

CORPORATE STRATEGY

Attractive counter-cyclical acquisition opportunities have continued to emerge during the past 12 months.

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

Over the past few years, APGF has been acquiring and integrating new property funds management businesses.In April 2010, the Fund continued this strategy with the acquisition of the Property Funds Australia (PFA) property funds management business.

With this acquisition, APGF has added to its substantial and quality property funds management business. APGF is positioning itself to emerge from the current property downturn as one of the major Australian-focused property funds managers.

It is anticipated that further attractive acquisition opportunities will emerge in the property funds management sector over the coming 12 to 18 months.

OUTLOOK

While APGF's reported results have been adversely affected by the on-going challenging economic and property conditions, the Fund remains in a sound underlying position to emerge from this very weak and volatile part of the cycle, particularly given APGF's turnaround and return to profitability. The Fund is now well placed to take advantage of opportunities as they arise within the sector.

We would like to thank all of our stakeholders for their continued commitment and support, particularly over the past few challenging years. The Board will continue to focus on ensuring a successful future for APGF and to maximise investors' returns.

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Chairman

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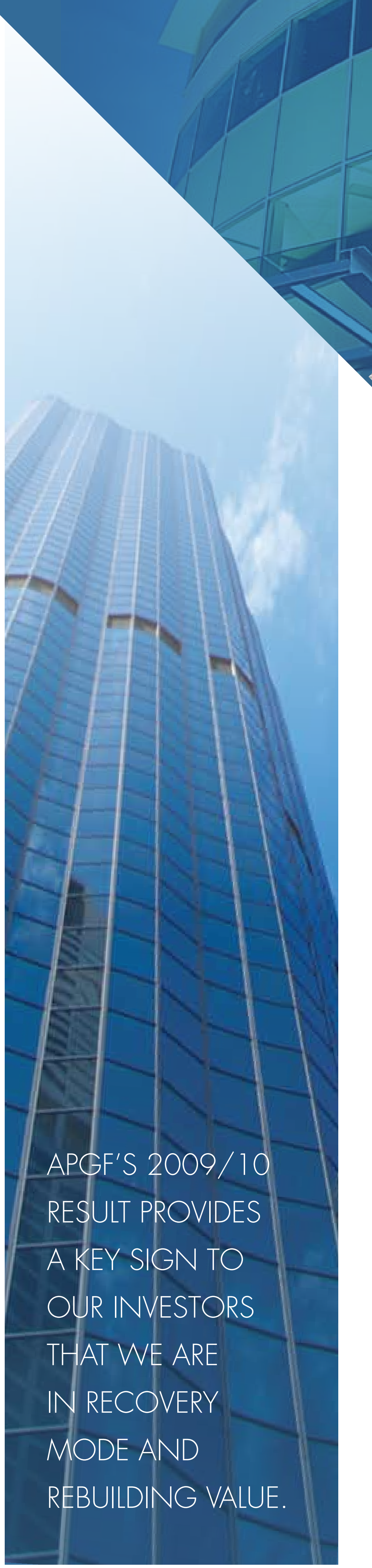
Managing Director



UPDATE ON CURRENT **TRUST ASSETS**

12 CREEK STREET ("BLUE TOWER")

Blue Tower's $8 million services upgrade is nearing completion with only the upgrade of two of the building's 13 lifts remaining. The air-conditioning chillers and controls upgrade were completed in early 2010 and the refurbishment of the ground floor foyer has been recently finalised, giving the building a modern institutional look and feel.

The Brisbane CBD office market has been impacted by the fallout from the economic downturn. Tenant demand is slowly recovering as is evidenced by recent leasing success achieved in Blue Tower. The upgrade to the building services places the Blue Tower at a competitive advantage in attracting and retaining tenants over competing buildings of the same age. Blue Tower's valuation was reduced from $247 million at 30 June 2009 to $240 million at 30 June 2010, which represents a 3% reduction over the 2009/10 financial year. Importantly, the building's valuation remained constant in the six months to 30 June 2010.

99 MELBOURNE STREET

This building is subject to an unconditional sales contract for $28.5 million with settlement expected to occur in late September 2010.

The sale price was $2.5 million over the December 2009 valuation and Directors decided to sell the property to reduce debt and provide additional working capital. The sale of the property is in line with APGF's conservative approach to capital management and desire to strengthen the Fund's balance sheet.

WESTPAC CONCORD CAMPUS

Westpac Concord Campus, located in Concord West, just 15km from the Sydney CBD, was acquired by APGF in October 2007.

This is a 16,500 square metre commercial/business park development comprising office accommodation along with other facilities and is fully leased to Westpac Bank. The property has good long-term prospects for repositioning.

As at 30 June 2010, the property was valued at $49 million, recording a $0.4 million increase over the past 12 months.

ROYAL BANK CHAMBERS

APGF acquired the classic sandstone Royal Bank Chambers building in Melbourne's prestigious Collins Street in October 2007.

ANZ has a long-term lease over the retail banking chambers. As previously advised, ANZ vacated the nine upper office floors in December 2009. The refurbishment and re-leasing program is proceeding in line with expectations.

As at 30 June 2010, the building was revalued at $30.3 million which is a 21% increase over its 30 June 2009 valuation of $25 million. This reflects the building's prime location and the relative strength of the Melbourne CBD leasing market.

UPDATE ON CURRENT **DEVELOPMENT PROJECTS**

PAVILIONS ON 5TH, PALM BEACH

APGF continued to make substantial progress on the development of the $125 million Pavilions on 5th mixed retail and residential project in 2009/10.

Construction of Stage 1 was completed in June 2009. To date, 89 of the 104 apartments have settled and 100% of the retail precinct is leased. The sales and leasing success of Stage 1, despite the economic environment of the past 12 months, reflects the quality of the project and confirms the area's demographics support the project's concept. Stage 2 of the project, comprising another 90 apartments and a dedicated dining and café precinct, is in the pre-selling and pre-leasing phase. To date, approximately 35 of the Stage 2 apartments are subject to a sales contract or expression of interest and the majority of the Stage 2 retail precinct is pre-leased. It is anticipated that construction of Stage 2 will commence in 2011. For more information, please visit **www.pavilionson5th.com.au**.

ULLADULLA, NEW SOUTH WALES

Both of APGF's Ulladulla land subdivisions are quality projects which continue to be substantially impacted by the fallout of the global economic crisis and the downturn in the property development sector.

APGF booked non-cash impairment losses of $4 million before tax in 2009/10 as a result of a further decrease in the land subdivision's valuations.

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

PROPERTY FUNDS **MANAGEMENT BUSINESS**

APGF's property funds management business currently has assets under management of approximately $1.4 billion, comprising more than 60 properties. It offers managed fund investment opportunities across sectors including: commercial office, residential, retail, hotel and industrial properties. Properties are located in Sydney, Melbourne, Brisbane, Perth, Canberra, Hobart, Newcastle, Gold Coast, Sunshine Coast and Cairns.

APGF continues to focus on the proactive management of property assets to maximise net income and enhance investors' returns.

APGF has developed a reputation as a consolidator within the industry following several acquisitions including the Elderslie property funds management business in June 2007, the Domaine property funds management business in March 2009 and the PFA property funds management business in April 2010.

The PFA Diversified Property Trust (PFA) is a diversified property trust across geographic location, property sector, tenant profile and lease expiry within Australia. Direct property sectors include commercial, retail, hotel and industrial. The Trust was established in 2003.

The Fund's investments comprise:

- The 24-level Civic Tower commercial office building at 66-68 Goulburn Street, Sydney, NSW*;
- The seven-storey The Octagon commercial building at 110 George Street, Parramatta, NSW*;
- The Citigate Perth and Melbourne hotels;
- The substantial Lands Building at 134 Macquarie Street, Hobart, TAS;
- The 23-level office building at 390 St Kilda Road, Melbourne, VIC;
- The five-level Foxtel building at Dean Street, Moonee Ponds, VIC;
- The Anzac Square Offices at 200 Adelaide Street, Brisbane, QLD;
- The Cairns Hypermarket at 101-103 Spence Street, Cairns, QLD;
- The four-level Sevenoaks office building at 303 Sevenoaks Street, Cannington, WA;
- A multi-level, hi-tech industrial complex at 706 Mowbray Road, Lane Cove, NSW;
- A modern office building at 657 Pacific Highway, St Leonards, NSW;
- The AAPT Centre, an internet data, telecommunications and office administration centre at 180-188 Burnley Street, Richmond, VIC;
- A retail/warehousing complex at 544 Kessels Road, MacGregor, Brisbane, QLD;
- The mixed-use Homeworld Centre at Tuggeranong, ACT;
- The Riverdale Shopping and Entertainment Centre at Dubbo, NSW; and
- A warehouse and distribution facility at 33 McDowell Street, Welshpool, WA.

*PFA has a 50% ownership interest in these properties

APGF benefits from its substantial property funds management business in several ways, including:

- attractive return on equity;
- stable recurring funds management fee income;
- more than 10,000 investors throughout Australia;
- attractive project pipeline; and
- geographic and property sector diversification.

APGF has a strong brand in property funds management and has increased its market share during the sector's recent cyclical low.

The increase in market share provided by recent acquisitions places APGF in a strong strategic position in the property funds management sector and enhances our ability to continue to grow and increase the profitability of the business as market conditions improve.

APGF IS POSITIONING ITSELF TO EMERGE FROM THE CURRENT PROPERTY DOWNTURN AS ONE OF THE MAJOR AUSTRALIAN-FOCUSED PROPERTY FUNDS MANAGERS.

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