AUSTRALIAN PROPERTY GROWTH FUND
2008/09 INVESTORS' REPORT

SEPTEMBER 2009

Geoff McMahon
Managing Director

LETTER FROM THE MANAGING DIRECTOR

Australian Property Growth Fund

OVERVIEW

The 2008/09 financial year has been extremely volatile and challenging for APGF. The global financial crisis (GFC) has been one of the most significant economic events to occur since the 1930s.

APGF's results reflect the challenges the Fund faced, along with all other property companies, as a result of these difficult economic conditions.

Despite the headline accounting loss, the Fund has delivered a respectable underlying profit against the headwinds of this challenging environment.

Throughout the year we focused on proactively managing the impact of the current market conditions and took decisive action in relation to risk minimisation, capital management and cost efficiency initiatives.

Our key objective was to ensure that we emerged from the current economic downturn in a strong financial position.

We have started the 2009/10 financial year with positive developments on a number of fronts including the finalisation of integration of the Domaine property funds management business and the continuing strong pre-sales being achieved at Pavilions on 5th at Palm Beach.

APGF's 2008/09 statutory accounting result is a net loss after tax of $64 million.

However, all of this loss is due to non-cash items which do not directly relate to the performance of APGF's operating business.

These non-cash items are property devaluations and asset impairment losses totalling $72.5 million and represent approximately 15.5% of total assets. Excluding these non-cash items, APGF recorded an underlying profit after tax of $8.5 million.*

ECONOMIC ENVIRONMENT

In the current difficult economic environment, access to debt and equity has become extremely limited and expensive. As a result, asset values globally - in every asset class - have fallen significantly.

Governments throughout the world, including Australia, took unprecedented action in response to the GFC, employing aggressive fiscal and monetary policies to stimulate economic activity. While these policies appear to be working and the worst of the crisis may now be over, the fallout is expected to continue for some time to come.

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2008/09 KEY FEATURES

- Underlying profit after tax of $8.5 million*;
- Accounting net loss after tax of $64 million (includes non-operating and non-cash asset devaluations and impairments of $72.5 million);
- Net asset value per stapled security of 70 cents;
- Net assets of $160 million;
- Assets under management of approximately $1.3 billion;
- Cash of $25 million as at 30 June 2009;
- No major investment property loan maturities until September 2011;
- Compliance with all bank loan covenants;
- Construction of Stage 1 of Pavilions on 5th, Palm Beach completed in June 2009 with 95% of Stage 1 retail leased and 82% of Stage 1 apartments under unconditional sales contracts;
- APGF acquired the Domaine property funds management business in March 2009; and
- Other excellent acquisition opportunities are emerging.

**Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of APGF in accordance with Australian Institute of Company Directors (AICD) / Financial Services Institute of Australia (FINSIA) principles of reporting underlying profit.*

LETTER FROM **THE MANAGING DIRECTOR** continued from page 1

PROPERTY MARKET

The Australian property sector, in particular, continues to be adversely impacted due to the prevailing credit crunch, which has resulted in a lack of capital for property transactions. This has created a market where there are currently more sellers than buyers.

All property sectors and classes have been adversely impacted by declining valuations.

Like other property funds, APGF has been impacted by changes in the sales capitalisation rates adopted by valuers and the negative sentiment directed towards the property sector.

Despite this economic climate, APGF remains in a solid position. And when considering APGF's 2008/09 results, it is important to note APGF's property investments are long term assets and are not intended to be sold in the short term.

CAPITAL MANAGEMENT

APGF continues to respond to the volatile and challenging conditions by taking steps to minimise risk and efficiently manage its capital base.

The Fund is in a sound capital position with approximately $25 million in cash at 30 June 2009. Also, APGF continues to comply with all of its debt covenants and has no major investment property loan maturities until September 2011.

The Fund's capital management strategy is to ensure distributions are in line with underlying profits, so as to ensure the sustainability of investor returns. Consistent with this policy and reflecting the deteriorating economy and property markets, the distribution rate will be reduced to 3.5 cents per stapled security per annum from 1 July 2009.

STRATEGY

Already attractive counter-cyclical acquisition opportunities are starting to emerge in a number of key property sectors.

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

As an example of this, APGF acquired the Domaine property funds management business in March 2009 at an attractive acquisition price.

This business comprises the management of several significant unlisted property funds with approximately $480 million of property assets as at 30 June 2009.

APGF management has proven expertise 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 by APGF in June 2007. We are confident that the Domaine acquisition will also prove to be a success.

OUTLOOK

There are currently tentative but positive economic "green shoots" emerging with evidence of increased business and consumer confidence and improved trading profits for a number of companies in the broad economy.

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 and consumer sentiment will inevitably improve.

Having experienced the credit crunch of the early 1990s, APGF's management team has the ability to continue managing the Fund and to deliver sustainable long term returns to our investors.

We enter the 2009/10 financial year with confidence, given our core operating business is in good shape, and our commitment to continued prudent management through this uncertain economic cycle.

Yours sincerely

Australian Property Growth Fund

Geoff McMahon – Managing Director

UPDATE ON CURRENT **TRUST ASSETS**

12 CREEK STREET ("BLUE TOWER")

Blue Tower's $8 million services upgrade is well underway with new air-conditioning chillers and controls already installed as part of the modernisation program.

Introduction of the new lifts is six months into its eighteen month installation program.

The Brisbane CBD office market has been impacted by the fallout from the GFC. There has been a reduction in demand for office space from tenants and many proposed office development projects have been deferred which will have the benefit of reducing future supply.

However, as a result of movement in sales capitalisation rates and the negative sentiment towards property, Blue Tower's valuation was reduced by $43.9 million to a carrying value of $247 million at 30 June 2009, representing a 15% reduction over the 2008/09 financial year.

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 $3 million to $28 million at 30 June 2009, which represents a 9.7% reduction over the last 12 months.

WESTPAC CONCORD CAMPUS

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

This is a commercial/business park development of 16,500 square metres of 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 2009, the property was valued at $48.6 million, a $6.8 million reduction. This represents a 12.3% drop over the past 12 months.

ROYAL BANK CHAMBERS

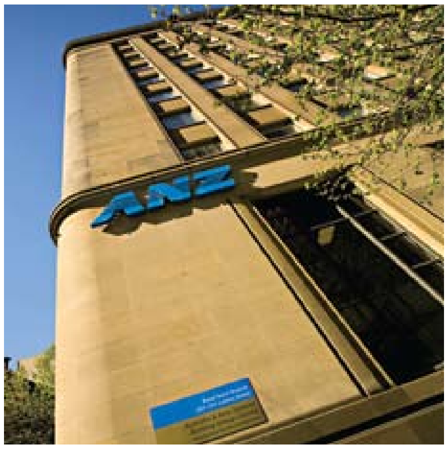
APGF acquired the classic sandstone Royal Bank Chambers building in Melbourne's prestigious Collins Street in October 2007. The building is fully occupied by ANZ Bank. APGF will have the opportunity to reposition the property in 2010, when the nine upper floors become available for re-leasing after ANZ relocates to its new Docklands building. Planning for the refurbishment and re-leasing process is well advanced.

As at 30 June 2009, the building was revalued at $25 million, representing a fall of $5.8 million. This is a decline of 18.8% on its previous valuation 12 months ago.

12 Creek Street 'Blue Tower'

Westpac Concord Campus

99 Melbourne Street



Royal Bank Chambers

WE ENTER THE 2009/10 FINANCIAL YEAR WITH CONFIDENCE, GIVEN OUR CORE OPERATING BUSINESS IS IN GOOD SHAPE, AND OUR COMMITMENT TO CONTINUED PRUDENT MANAGEMENT

UPDATE ON CURRENT **DEVELOPMENT PROJECTS**

PAVILIONS ON 5TH, PALM BEACH

APGF has made good progress on the development of Stage 1 of the $125 million Pavilions on 5th mixed retail and residential project at Palm Beach.

Construction of Stage 1 was completed in June 2009. This stage of the project has been substantially de-risked with 85 of the 104 apartments under unconditional sales contracts and 95% of the retail precinct pre-leased.

The project has continued to attract apartment sales, despite the volatile economic conditions of the past 12 months. This sales success reflects the quality of the project and confirms that the area's demographics support the project's concept.

Settlement of Stage 1 residential apartment contracts is expected to commence in the last quarter of 2009.

Stage 2 of the project, comprising another 90 apartments and a dedicated dining and café precinct, is set to be released for sale in late 2009. Construction of this stage will commence once the majority of the Stage 1 apartments are settled and sufficient Stage 2 pre-sales are secured.

For more information on Pavilions on 5th, please contact APGF's 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 (Springfield Meadows and Dolphin Point) are quality projects, but they have been substantially impacted by the fallout of the GFC and the resultant downturn in the property development sector. As a result, APGF has booked a non-cash impairment loss of $3.9 million in the Fund's 2008/09 accounts.

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

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