APN | Property Group Limited

ANNUAL REPORT 2005

Our brand of property investment

APN Property Group Limited
and its Controlled Entities

ABN 30 109 846 068

Corporate Directory

Registered Office

APN Property Group Limited
Level 32
101 Collins Street
Melbourne VIC 3000
Telephone: (03) 8656 1000
www.apnpg.com.au

Directors

Chris Aylward, Executive Chairman
Clive Appleton, Managing Director
Howard Brenchley, Executive Director
Andrew Cruickshank, Non-executive Director

Company Secretary

Peter Nicholson

Auditor

KPMG
161 Collins Street
Melbourne VIC 3000

Share Registry

ASX Perpetual Registrars Limited
Securities Registration Services
Level 4, 333 Collins Street
Melbourne VIC 3000

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Chairman's Statement

Welcome to the inaugural annual report for the APN Property Group Limited ("the Company") for the year ended June 2005.

While the Company was only listed on the Australian Stock Exchange (ASX) for a short period of time during the 2005 financial year, we have made significant progress during the year and post year end.

Key highlights of the year include the following:

Net Profit & Dividends

Net Profit After Tax of $2.434 million, which was consistent with our forecast of $2.363 million in the Prospectus issued in May 2005. The primary factor contributing to the profit slightly exceeding our Prospectus forecasts was the launch of the APN European Retail Trust which was planned but un- budgeted. The profit result was tempered by a further one-off provision for the completion of the Liverpool St project (Residential, Melbourne). This project is now essentially complete.

Consistent with the Prospectus forecasts, the Company will pay a fully franked dividend of 2 cents per share.

Listing on the Australian Stock Exchange

The Company successfully listed on the ASX (ASX code APD) on 23 June 2005 with over 1,000 shareholders including retail and institutional investors. The shares, which were issued at $1.00, closed on the first day of trading at $1.18 and further strengthened over the next week to finish the financial year at $1.36, generating an excellent return for shareholders. Following the end of the financial year and the release of the financial results on 12 September 2005, the shares closed at $1.60 on 13 September 2005.

Growth in Funds Under Management

Our core business, APN Funds Management Limited (APN FM), performed strongly during the period.

In the year to 30 June 2005, APN FM increased the number of funds it manages from four to eight, and increased funds under management from approximately $1.4 billion to $1.9 billion. Further information regarding this is detailed in the report from the Managing Director.

2006 – The Year Ahead

We look forward in the 2006 financial year to a further strengthening and growing of our business. We are pleased to report that we have had a strong start to the year with funds under management growing to $2.2 billion as at 31 August 2005, which is close to our forecast of $2.3 billion for the year ending June 2006.

Yours sincerely,

Chris Aylward
Executive Chairman

Managing Director's Statement

APN Funds Management Division (APN FM)

The funds management division (APN FM), which represents the core business of the Group, has continued to deliver strong results for the Company.

These achievements are discussed further below.

1 Increase in number of funds, diversity of funds and funds under management

During the 2005 financial year, APN FM launched five new property funds and increased its funds under management from approximately $1.4 billion to $1.9 billion. Post June 2005, the number of funds have increased to 11 and funds under management has grown to over $2.2 billion as at 31 August 2005. The major new funds launched were:

- APN Development Fund No 1.

  This fund commenced in April 2005 after raising $110 million in equity from wholesale investors. Together with borrowings, the fund can undertake over $340 million worth of property developments. The launch of the fund to wholesale investors is the first fund offered by APN FM to this market. In addition to the immediate benefits of growth in profitability and in funds under management, the more important result is providing an opportunity for APN FM to become a provider of property related funds for the wholesale market and an opportunity to diversify the revenue streams for the business.

  A key to the successful launch of the fund was the ability of APN FM to demonstrate a successful track record and continued expertise in both property funds management and property development.

- APN European Retail Trust

  In June 2005 APN FM launched the APN European Retail Trust, a listed property trust investing in European retail property. The trust's initial public offer closed oversubscribed with significant demand from retail and institutional investors. The trust listed on the Australian Stock Exchange (ASX code AEZCA) in July 2005 raising initially $240 million in equity and debt. This will increase to around $380 million in June 2006 with the final instalment on the partly paid units and additional debt drawdown to fund a further acquisition.

  The units in the trust have traded well above issue price (70 cents) to close at 84 cents as at 20 September 2005. This is an excellent result as it has provided a strong return on investment for initial investors and reduced the cost of capital for the trust thereby allowing the trust to more readily expand and improve the returns for investors.

  Similar to the APN Development Fund, the launch of this trust is extremely important in terms of entering a substantial new and growing market for APN FM and further diversifying the business.

- APN Suite of Property Funds

  While occurring post the end of the financial year, we think it is also important to make note that we have recently launched (August 2005) two new property funds being the APN Diversified Property Fund and the APN Direct Property Fund. The launch of these funds, which form part of the APN Suite of Property Funds, is an important initiative. These funds have been created to suit investment from investment platforms such as Master Trusts and Wrap Accounts. This market has historically been the cornerstone of the APN FM business.

2 Management of Existing Funds

Performance

I am delighted to report that each of the funds we managed during the year either met or exceeded our expectations of performance. This is clearly very important in terms of our ability to meet or exceed both investor and adviser expectations, which clearly has a significant impact on our capacity to expand our business.

APN Property for Income Fund (APN PFIF)

The APN PFIF is a property securities fund designed for investment platforms and retail investors. It has been our flagship fund since the inception of the funds management business. As at 30 June 2005 it had funds under management of approximately $1.5 billion. I am pleased to report that during the year the fund performed very strongly and this contributed to a growth in the fund's assets of nearly $500 million.

APN PFIF is being closed to new investors and a new fund, APN Property for Income Fund 2 (APN PFIF2) has opened. This means that those investors in the first fund should avoid dilution of income and capital growth. The new fund has embraced a slightly more expansive mandate to facilitate investment in new types of property funds that are being launched.

We are pleased to advise that the new fund has been well received by advisers and investment platforms.

3 Increase in resourcing/infrastructure/branding

We have significantly expanded our staff resourcing and technology infrastructure during the year and we have also undertaken a major re-branding exercise culminating in a new website. We will continue to invest and develop our technology base to ensure we provide excellent service and reporting for investors.

APN Development and Delivery Division (APN DD)

In the Prospectus we indicated there were four legacy projects. The following is a brief update on these projects.

380-390 Latrobe St (Office, Melb)

During the financial year there was a sale of an equitable interest in the building in line with the prospectus forecast.

Liverpool St (Residential, Melb)

We incurred a greater provision for the cost to complete this project than had been allowed in the prospectus forecast. This was a disappointing result. We can however report that this project is now essentially complete and no further losses are forecast.

120 Harbourside Esplanade (Office, Melb)

The sale of this project was completed in August 2005 following practical completion. The property was acquired by the new APN Direct Property Fund and its impact on profit was in line with forecasts.

518-526 Dandenong Rd (Retirement, Melb)

We can report that practical completion of this project is on track for October 2005.

Yours sincerely,

Clive Appleton
Managing Director

Board of Directors

Christopher J. Aylward (Executive Chairman)

Chris has been involved in the Australian property and construction industry for over 30 years. Prior to establishing APN Development and Delivery Pty Limited (previously known as Australian Property Network Pty Limited) in 1996, Chris was the managing director of Grocon Pty Ltd and had responsibility for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over $2 billion dollars, including Governor Philip and Governor Macquarie Towers in Sydney and 120 Collins Street and The World Congress Centre in Melbourne.

Clive R. Appleton (Managing Director)

B.Ec, MBA, GradDip (Mktg), FAICD

Clive joined the APN Property Group in April 2004 after a long career in property and property funds management. Prior to joining the APN Property Group, Clive had been managing director of the Gandel Group, one of Australia's foremost shopping centre developers and managers. Prior to joining the Gandel Group, Clive was managing director of Centro Properties Limited (previously known as Jennings Properties Limited) a listed property developer, manager and owner.

Clive has considerable experience in property development having been involved with major expansions and refurbishments including the Chadstone Shopping Centre, Melbourne and the Myer Centre, Brisbane.

Howard E. Brenchley (Executive Director)

B.Ec

Howard is also the chief investment officer of APN Funds Management Limited (APN FM). Howard has been primarily responsible for the development of APN FM's funds management business and the suite of APN FM funds. Howard continues to oversee all investment management and product development for APN FM. Howard has been actively involved in the property trust industry as a researcher, investor and commentator for over 19 years. Prior to joining APN FM in 1998, Howard was research director of Property Investment Research Pty Limited, an independent research company specialising in the property trust sector. Howard was responsible for creating the original strategy for APN Property for Income Fund and has been directly involved in the management of that fund since its inception in 1998.

Andrew N.C. Cruickshank (Non Executive Director)

B.A. (Ec), GradDip (Prop), GradDip (Acc), MUP

Andrew has over 20 years experience in the Australian, British and Hong Kong property markets. Andrew's Australian property development, management and finance experience includes extensive involvement in the funding and development management of 120 and 161 Collins Street, the SECV Headquarters in Melbourne and the Penrith Taxation Office in Sydney.

Corporate Governance Statement

Board of Directors

Role and Responsibilities

The Board of APN Property Group Limited (APN PG) is responsible for the overall management of APN PG and the APN Property Group generally, including the determination of the Group's strategic direction.

APN PG has adopted a Board Charter which sets out the role and responsibilities of the Board. The Board Charter sets out the composition and confirms the functions of the Board, and establishes the corporate governance structure of APN PG.

The role of the Board includes:

- oversight of APN PG, including its control and accountability systems;
- appointing and removing the managing director (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent, if any) and company secretary;
- input into and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring major capital expenditure, financial reporting, capital management and acquisitions and divestures; and
- approving and monitoring financial and other reporting.

A copy of the Board Charter is available on APN PG's website.

Composition, Structure and Processes

The Board currently comprises three executive directors and one non-executive director. The names and biographical details of the directors are set out on page 3.

Terms of Appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including the basis upon which they will be indemnified by APN PG. Non-executive directors are entitled to take independent advice at the cost of APN PG in relation to their role as members of the Board.

A copy of the non-executive director letter of appointment is available on APN PG's website.

Board Sub-Committees

Nomination and Remuneration Committee

The Board has established the Nomination and Remuneration Committee as a sub-committee of the Board of APN PG.

The purpose of the Nomination and Remuneration Committee is to provide a mechanism for the Board to focus on, and develop appropriate nomination and remuneration policies which are designed to meet the needs of APN PG, to enhance corporate and individual performance, and to fairly and regularly review the performance of the Board and key executives. The Nomination and Remuneration Committee also has a role in advising the Board on the appropriate disclosure to be made in relation to executive remuneration, termination payments and retirement benefits, and for developing a process for performance evaluation of the Board, its committees and individual directors, and senior management, which can be made available to the public.

The Nomination and Remuneration Committee also makes recommendations to the Board about developing remuneration and incentive policies which motivates directors and management to pursue the long-term growth and success of APN PG and which demonstrate a clear relationship between performance of senior management and remuneration. The Nomination and Remuneration Committee also develops procedures to help directors access continuing professional development and education.

A copy of the Nomination and Remuneration Committee Charter is available at APN PG's website. The Board has resolved to establish a Nomination and Remuneration Committee but, given the timing of the listing, it had not been convened prior to the end of the financial year.

The Board of APN Property Group Limited meets regularly to review and discuss the operations of all subsidiary companies and managed funds.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which has the primary responsibility for establishing a sound system of risk and audit oversight and management and internal control. This system is designed to identify, assess, monitor and manage operational and financial risk, ensure effective audit functions and communication between the Board and external auditors, and to maintain high standards of management and financial reporting. It is also the role of the Audit and Risk Committee to assist the Board to inform investors of material changes to APN PG's financial and risk profile.

The purpose of the Audit and Risk Committee is to provide a mechanism to the Board for focusing APN PG on risk management and on internal control and to develop policies that clearly describe the roles and respective accountabilities of the Board, management and internal and external audit in relation to the oversight of strategy (strategic risk); legal and regulatory compliance (legal risk); accounting and liquidity (financial risk); operations and the impact of external events on operations (operational risk); and changing standards and regulation of corporate behaviour (reputation risk).

The Audit and Risk Committee makes recommendations to the Board on the establishment and implementation of APN PG's risk management and financial reporting system, and in relation to APN PG's risk profile, and assists management to establish and implement a system for identifying, assessing, monitoring and managing material risk throughout the organisation including APN PG's internal compliance and control systems.

The Audit and Risk Committee reviews at least annually the effectiveness of APN PG's implementation of its risk management and financial reporting system.

The current members of the Audit and Risk Committee are Chris Aylward, Andrew Cruickshank and Clive Appleton. Given the timing of the listing, the committee had not been convened prior to the end of the financial year.

A copy of the Audit and Risk Committee Charter is available at APN PG's website.

Review of Board Performance

The performance of the Board is to be reviewed at least annually by the Board with the assistance of the Nomination and Remuneration Committee.

The evaluation will include a review of:

- The Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- The performance of the Board and its committees.

With the listing of the Company on the ASX occurring in late June 2005, a review of the Board was not completed in the reporting period.

Further, a review of each director's performance will be undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election. No director stood for re-election in the reporting period.

Ethical Standards, Market Communication and Conflicts of Interest

Code of Conduct

The Board of APN PG has adopted a Code of Conduct that applies to all directors and employees of APN PG and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of APN PG directors, executives and senior management and encourage the observance of those standards, and to ensure high standards of corporate and individual behaviour are observed by all of APN PG's employees in the context of their employment with APN PG. By adoption of the Code of Conduct, APN PG wants to ensure that all persons dealing with APN PG, whether it be employees, shareholders, investors, customers or competitors, can be guided by the stated values and policies of APN PG.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors and employees and other legal and compliance obligations of APN PG including corporate opportunities; confidentiality; fair dealing; protection of and proper use of APN PG assets; compliance with laws and regulations; and encouraging the reporting of unlawful or unethical conduct.

A copy of the Code of Conduct is available at APN PG's website.

Securities Trading Policy

APN PG has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of APN PG and its subsidiaries for disclosure of insider trading by their employees.

The Securities Trading Policy applies to all directors, executives, senior management and other employees of APN PG and its subsidiaries and is designed to prevent breaches of the insider trading provisions by employees of APN PG and its subsidiaries. The Securities Trading Policy confirms that it is the responsibility of all employees to comply with the insider trading provisions of the Corporations Act and the ASX Listing Rules and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of APN PG or its subsidiaries, as appropriate.

A copy of APN PG's Securities Trading Policy is available at APN PG's website.

Continuous Disclosure

APN PG has adopted a continuous disclosure policy to ensure that shareholders and the market have equal and timely access to material information regarding developments in relation to the company in accordance with applicable disclosure requirements in both the Corporations Act and the AS) Listing Rules. Such information will relate to matters including the financial position, performance, ownership and governance in relation to APN PG.

A copy of APN PG's Continuous Disclosure Policy is available at APN PG's website.

Compliance with ASX Corporate Governance Guidelines

APN PG meets all of the ASX Principles of Good Corporate Governance and Best Practice Recommendations as published in March 2003 ("ASX Guidelines") except in relation to the following:

- Recommendation 2.1 – a majority of the Board should be independent directors;
- Recommendation 2.2 – the chairperson should be an independent director;
- Recommendation 2.4 – the Board should establish a Nomination Committee consisting of a majority of independent directors and chaired by an independent director;
- Recommendation 4.3 – the Board should establish an Audit Committee consisting only of non-executive directors, a majority of independent directors and chaired by an independent chairperson; and
- Recommendation 9.2 – the Board should establish a Remuneration Committee consisting of a majority of independent directors and chaired by an independent director.

Corporate Governance Statement

Recommendations 2.1, 2.2, 2.4, 4.3 and 9.2

Using the criteria for assessment of independence of directors set out in the ASX Guidelines, APN PG does not have any independent directors at present, and therefore does not comply with recommendations 2.1, 2.2, 2.4, 4.3 and 9.2 of the ASX Guidelines. The Board has carefully considered its size and composition and formed the view that based on its current composition, it has the necessary skills and motivation to ensure that APN PG performs strongly and there is sufficient accountability in the structure of the Board, notwithstanding that it does not meet all of the ASX Guidelines.

The Board has considered the best interests of shareholders and determined that the current composition of the Board is adequate, and serves the best interests of shareholders, given the specialist knowledge of the property and property securities sector required by directors to create value for APN PG and its shareholders. Each member of the Board must bring an independent view and judgment to the Board and must declare actual and potential conflicts of interest. In appropriate circumstances, the audit and risk management functions in relation to particular managed investment schemes for which APN FM is the responsible entity has been conferred upon the Compliance Committee for the relevant scheme, which is required by the Corporations Act to consist of a majority of external, independent members, to ensure the independence of the audit and risk management function is maintained.

APN PG does, however, intend to supplement its current mix of executive and non-executive directors with further appointments of non-executive directors.

Directors' Report

The directors present their report together with the financial report of APN Property Group Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities for the period 1 July 2004 to 30 June 2005 and the auditor's report thereon. This financial report is the first periodic report lodged by APN Property Group Limited since its listing on the ASX on the 20th June 2005.

Directors

The names of the persons who were directors of the Company during the financial year are as follows:

Name	Position	Appointed	Resigned
Christopher Aylward	*Chairman and Executive Director*	1 July 2004	
Clive Appleton	*Managing Director*	1 July 2004	
Howard Brenchley	*Executive Director*	1 July 2004	
Andrew Cruickshank	*Executive Director* (1 July 2004 – 21 June 2005) *Non Executive Director* (since 22 June 2005)	1 July 2004	
Adam Grollo	*Non Executive Director*	1 July 2004	22 April 2005

Particulars of directors' qualifications, other listed company directorships, experience and special responsibilities are detailed on page 3.

Meetings of Directors

Since the listing of the Company on the Australian Stock Exchange (ASX) on 20 June 2005, to the end of the financial year, the following meetings of Directors of APN Property Group Limited were held. Attendances by each director were as follows:

	Board of Directors' Meetings	
	Number eligible to attend	Number attended
Christopher Aylward	2	–
Howard Brenchley	2	2
Clive Appleton	2	2
Andrew Cruickshank	2	2
Adam Grollo (*)	–	–

* resigned as director of APN Property Group Limited on 22 April, 2005

The directors of APN Property Group Limited as part of the process of its listing on the ASX in June 2005, have established an Audit and Risk Committee. The Board also resolved to establish a Nomination and Remuneration Committee. Due to the timing of the listing, no meetings were held prior to 30 June 2005.

No officers are former auditors

No officer of the consolidated entity has been a partner of an audit firm or a director of an audit company that is or was an auditor of the consolidated entity during the 2005 financial year.

Directors interests in share capital

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director, including their personally-related entities are as follows:

Ordinary Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Shares purchased during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors						
Christopher Aylward	–	49,123,688	–	–	–	49,123,688
Clive Appleton	–	–	–	10,000,001	–	10,000,001
Howard Brenchley	–	13,618,610	–	–	(1,000,000)	12,618,610
Andrew Cruickshank	–	16,536,862	–	–	(15,000,000)	1,536,862
Adam Grollo	–	8,268,380	1,731,621	–	–	10,000,001

Directors' Report

Ordinary Shares *continued*

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)). Note: The amounts disclosed in the above note relating to the shares issued are post the share subdivision which occurred on 28 April 2005. Refer to note 17(a) for details of share subdivision.

A Class Ordinary Preference Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors					
Christopher Aylward	–	4,620,000	–	(4,620,000)	–
Clive Appleton	–	–	–	–	–
Howard Brenchley	–	–	–	–	–
Andrew Cruickshank	–	–	–	–	–
Adam Grollo	–	–	–	–	–

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)).

B Class Ordinary Preference Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors					
Christopher Aylward	–	292,500	–	(292,500)	–
Clive Appleton	–	–	–	–	–
Howard Brenchley	–	97,500	–	(97,500)	–
Andrew Cruickshank	–	97,500	–	(97,500)	–
Adam Grollo	–	–	–	–	–

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)).

Specified executives

The directors are of the opinion that there are no executives of the APN Property Group who meet the definition of specified executives, as defined under the Corporations Act 2001. There are no specified persons, other than the directors, that participate in making decisions that affect the whole, or a substantial part, of the business of the entity; or has the capacity to affect significantly the entity's financial standing. Accordingly, for the purposes of the remuneration report, the only specified executive is the Company Secretary, Mr Peter Nicholson.

Specified executives interests in share capital

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified executive, including their personally-related entities are as follows:

	Number held at 1 July 2004	Acquired through a share issue during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified executive					
Peter Nicholson (Company Secretary)	–	–	101,000	–	101,000

Voluntary escrow

The Directors specified below (escrowed security holders) have each entered into a voluntary escrow deed with the Company pursuant to which they agree not to sell, transfer or otherwise dispose of their interests in the securities referred to below (escrowed securities) for an escrow period.

Each escrowed security holder may sell, transfer or otherwise dispose of its interests in the escrowed securities prior to the end of the escrow period:

(a) during a takeover bid (but the restrictions above apply to any escrowed securities which are not sold during the takeover bid unless a person and its associates take a relevant interest in at least 50% of the Company); or

(b) if a court approves a scheme of arrangement in relation to the Company which would result in a person and its associates taking a relevant interest in at least 50% of the Company.

The voluntary escrow deeds provide for the application of holding locks and/or transfer restrictions to the escrowed securities for the duration of the escrow period.

Specified directors	Escrow Period	Number of securities subject to escrow conditions
Christopher Aylward	Until release of the Company's financial results for the financial year ended 30 June 2006	39,298,950
	Until release of the Company's financial results for the half year ended 31 December 2005	4,912,369
	Until release of the Company's financial results for the financial year ended 30 June 2005	4,912,369
Clive Appleton	Until release of the Company's financial results for the financial year ended 30 June 2006	10,000,001
Howard Brenchley	Until release of the Company's financial results for the financial year ended 30 June 2006	12,618,610

Review and result of operations

Financial Highlights

The consolidated net profit after income tax for APN Property Group Limited for the year ended 30th June 2005 was $2,434,287 against a prospectus forecast of $2,363,000.

Dividends

Consistent with the prospectus, the Company will pay a fully franked dividend of 2 cents per ordinary share. During the year, the Company paid fully franked dividends to preference shareholders of $320,804.

Financial Position

The net assets have grown by approximately $2 million from the 31 December 2004 pro-forma balance sheet included in the financial section of the prospectus. Other than a $5.7 million corporate facility, the debt facilities are project specific funding. The Company attempts to mitigate risks attaching to project facilities by making the facilities recourse only to the project and its investment in the controlled entity undertaking the project.

Further information relating to the performance of the Company, and the outlook for 2006, is contained in the Chairman's statement and Managing Director's statement of the annual report.

State of affairs

APN Property Group Limited was incorporated on 1 July 2004. On 10 September 2004, APN Property Group Limited acquired APN Development and Delivery Pty Ltd and APN Funds Management Limited for $32,107,500. The consideration paid for the acquisitions was made through the issue of capital in APN Property Group Limited. (refer to note 22 (b) of the financial report for further information relating to the acquisitions).

On 20 June 2005 the Company was admitted to the official list of the Australia Stock Exchange. As part of the initial listing, 31,000,000 ordinary shares were issued with proceeds of $31,000,000. The issue costs of the raising totalling $2,162,121 have been offset against the equity raised. Subsequently, 16,000,000 ordinary shares amounting to $16,000,000 were bought back from existing shareholders.

During the year the Company also bought back the preference shares on issue. Refer to note 17 of the financial report for further information.

Directors' Report

Principle Activities

The principle activities of the Company during the course of the financial period were:

Funds management services

Building and construction services

There were no significant changes in the nature of the activities of the Company during the period.

Strategy and Future Prospects

Information relating to the strategy and future prospects of the Company, and the outlook for 2006, is contained in the Chairman's statement and Managing Director's statement of the annual report.

Likely developments

Likely developments in the operations of the consolidated entity and the expected results of those operations are covered generally in the review of operations of the consolidated entity contained within the Directors Report. Additional information is available within the Chairman's statement and Managing Director's statement contained in the annual report.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Dividends

Dividends recognised in the current period by the Company are:

	Cents per share	Total $	Franked/ Unfranked	Date of payment
2005 Financial Period				
Ordinary shares				
No Dividend Declared				
'A' Class redeemable preference shares				
Interim 2005 preference	9.0	34,175	100% Franked	30 September 2004
Interim 2005 preference	9.0	35,315	100% Franked	29 October 2004
Interim 2005 preference	9.0	29,548	100% Franked	30 November 2004
Interim 2005 preference	9.0	28,794	100% Franked	30 December 2004
Interim 2005 preference	9.0	28,794	100% Franked	31 January 2005
Interim 2005 preference	9.0	26,008	100% Franked	28 February 2005
Interim 2005 preference	9.0	28,794	100% Franked	31 March 2005
Interim 2005 preference	9.0	27,866	100% Franked	30 April 2005
Interim 2005 preference	9.0	28,794	100% Franked	31 May 2005
Interim 2005 preference	9.0	18,577	100% Franked	20 June 2005
		286,665		
'B' Class redeemable preference shares				
Interim 2005 preference	9.0	24,402	100% Franked	4 April 2005
Interim 2005 preference	9.0	7,333	100% Franked	31 May 2005
Interim 2005 preference	9.0	2,404	100% Franked	20 June 2005
		34,139		

Dividends proposed and not recognised as a liability

Since the balance date the directors have declared a dividend of 2 cents per fully paid ordinary share franked at the corporate tax rate of 30 percent, amounting to $2,300,980.

Events subsequent to balance date

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. Refer to Note 30.

Since the balance date the directors have declared a dividend of 2 cents per fully paid ordinary share franked at the corporate tax rate of 30 percent, amounting to $2,300,980.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company, in the subsequent financial period.

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board of the Company or its controlled entities has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company or its controlled entities and have been reviewed by the Board to ensure they do not impact on the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company or its controlled entities, acting as an advocate for the Company or its controlled entities or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

Statutory audit	Consolidated 2005 $	Company 2005 $
Audit and review of the financial reports	340,000	50,000
Services other than Statutory audit		
Other services	150,000	150,000

Other services related to due diligence services provided by KPMG Transaction Services as part of the listing of APN Property Group Limited on the ASX.

Company secretary

Mr Peter Nicholson B.Ec., CPA was appointed to the position of company secretary on 1 July 2004.

Prior to joining a controlled entity of the APN Property Group Limited in 2002, Peter was with AXA Asia Pacific for 17 years working in its funds management area as an accountant. For approximately 11 years he was responsible for the accounting of AXA's listed and unlisted property trusts. Peter is responsible for overseeing the internal accounting and company secretarial functions.

Indemnification and insurance of officers

The Company has agreed to indemnify the directors and officers of the Company and its controlled entities, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company will meet the full amount of any such liabilities, including costs and expenses.

The Company may also indemnify any employee by resolution of the Directors.

Insurance premiums

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities.

The insurance premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums paid in respect of the officers of the Company and its controlled entities for the reporting period were $29,290.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

Directors' Report

Remuneration Report

	Primary benefits			Post employment	Other compensation	Total remuneration	Proportion of remuneration performance related (%)
	Salary & fees	Bonus	Non-monetary benefits	Super–annuation benefits	Other		
	$	$	$	$	$	$	%
Specified directors							
Christopher Aylward	358,389	–	61,298	23,170	–	442,857	–
Andrew Cruickshank	370,948	–	42,382	16,154	–	429,484	–
Clive Appleton	664,021	–	–	11,585	104,000	779,606	13.3%
Howard Brenchley	504,203	–	–	11,585	–	515,788	–
Specified executives							
Peter Nicholson	129,131	25,000	–	11,253	1,858	167,242	16.05%
	2,026,692	25,000	103,680	73,747	105,858	2,334,977	

Remuneration of directors and specified executives

Note: Other compensation relates to the fair value of equity issued under Director and Executive share acquisition plans. Refer to note 16 for further information.

Principles used to determine the nature and amount of directors and specified executives' remuneration

Remuneration of non Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on and the responsibilities of the directors. The Board reviews non-executive directors' fees annually. The Board also seeks advice from independent remuneration consultants to ensure non-executive directors' fees are appropriate and in line with the market.

Fees payable to non-executive Directors must be by way of a fixed sum and not by way of a commission on, or a percentage of, profits or operating revenue.

Non-executive directors' fees including standing Board committee fees and subsidiary Board fees are determined within an aggregate annual fee pool limit, which is periodically recommended for approval by shareholders. At present that sum is fixed at a maximum of $500,000.

Subject to the Corporations Act, in addition to or substitution for the fees paid to a Director for carrying out their duties and responsibilities, if the Directors or shareholders request a Director to perform services or to undertake special exertions (such as living overseas) in addition to those required by the Corporations Act, the Directors can determine that the Company remunerate the Director for those services.

Remuneration of executive directors and specified executives

Remuneration levels for directors and senior executives are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The remuneration committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the directors and senior executives ability to control the performance of areas applicable to their responsibilities;
- the consolidated entity's performance including the consolidated entity's earnings and the growth in share price and returns on shareholder wealth; and
- the amount of incentives within each directors and senior executives remuneration.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance-linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided through offering shares in the Company via the APN Property Group Limited Senior Executive Share Plan No. 1 (refer to Note 16). In the future it is foreseen that incentives will also be provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan (refer to Note 16).

Short-term incentive bonus

Each year the Nomination and Remuneration committee sets the KPI's (key performance indicators) for the executive directors and senior executives. The KPI's generally include measures relating to the consolidated entity, the relevant business area, and the individual, and include financial, people, customer and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are "profit after tax" and "return on capital employed" of relevant business areas compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development.

At the end of the financial year the remuneration committee assess the actual performance of the consolidated entity, the relevant business areas and individual against the KPI's set at the beginning of the financial year. No bonus is awarded where performance falls below the minimum.

The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

Fully vested bonuses of $25,000 were paid to the specified Directors and specified executives during the period.

Long-term incentive

Shares in the Company may be offered to Directors and Specified executives through Executive Share Purchase Plans.

Each participant in the Executive Share Purchase Plan (the plan) may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee of the plan. Any dividends received in respect of the shares held on trust will first be used to repay the loan.

During the period, shares in the Company were issued to Mr Clive Appleton, the Managing Director of the Company and to Mr Peter Nicholson, the Company Secretary.

The shares issued to Mr Clive Appleton are held by APN Property Group Nominees Pty Limited (Trustee) as trustee for the Clive Appleton Share Trust (Trust). The Trust was established by deed dated 10 September 2004. The Trustee holds 10,000,001 Shares for the benefit of Lesinca Pty Limited in its capacity as trustee for the Lesinca Trust (an entity controlled by Clive Appleton) (Beneficiary). The Company lent to the Trustee for the benefit of the Beneficiary the funds to subscribe for the shares. The loan is interest free and limited recourse, with the Trustee's recourse limited to the net proceeds from the sale of the shares. As at 30 June 2005, the value of these shares included in contributed equity is $3,084,039. As at 30 June 2005, the carrying value of the loans made under the scheme totalled $3,084,039.

The shares issued under the scheme are ordinary shares with same entitlements to dividends and voting as ordinary shareholders.

Of the 10,000,001 shares issued to Mr Clive Appleton, 4,000,000 are subject to forfeiture and therefore restricted. The balance of 6,000,001 shares vested for successfully listing the Company on the ASX. The restricted shares will become vested as follows:

- up to 50% of the restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2006 year; and
- the remaining restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The ability of the Trustee and the Beneficiary to sell or otherwise deal in the shares is subject to the voluntary escrow restrictions.

The fair value of the shares issued under this arrangement included in remuneration was $104,000.

The shares issued to Mr Peter Nicholson are held by the APN Property Group Nominees Pty Limited as trustee (Trustee) for the APN Property Group Limited Senior Executive Share Plan No. 1.

The Trustee holds 100,000 shares for the benefit of Mr Nicholson which were issued on 20 June 2005.

The purchase of the shares was funded by way of a loan made by the Company. There is no interest payable on any such loan and the loan is limited recourse, with the Trustee's recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee. Any dividends received in respect of the shares held on trust will first be used to repay the loan.

Directors' Report

The shares issued under the scheme are ordinary shares with same entitlements to dividends and voting as ordinary shareholders. As part of the terms of issue, the Company has placed restrictions on the shares. Mr Nicholson is restricted from dealing in those shares for a period of 2 years.

Once the shares are no longer restricted, Mr Nicholson may direct the Trustee to sell the shares, in which case the proceeds of the sale will be used to pay off the balance of the loan and any surplus will be paid to the employee.

Mr Nicholson was also issued 1,000 gift shares under the APN Property Group Employee Share Gift Plan.

The fair value of the shares issued under these arrangements included in remuneration was $1,858.

Retention/retirement benefits

Retirement benefits are delivered under contributions to various superannuation plans. The plans provide for specified contribution amounts for employees in accordance with government regulations and company policies.

Subject to the Corporations Act and the ASX Listing Rules, the Company may pay a former Director, or the personal representative of a Director who dies in office, a retirement benefit in recognition of past services of an amount determined by the Directors.

The Directors may resolve that the Company enters into a contract with a Director providing for payment of a retiring benefit unless prohibited by the Corporations Act or the ASX Listing Rules.

Executive and Senior Management service agreements

Remuneration and other terms of employment for executive directors and the specified executives are formalised in service agreements or letters of employment.

Each of these agreements provide for various conditions including:

- an annual remuneration package and benefits including superannuation which is reviewed at least on an annual basis with reviews currently effective on 1st January;
- the basis of termination or retirement and the benefits and conditions as a consequence;
- agreed provisions in relation to annual leave and long service leave, confidential information, intellectual property; and
- a restrictive covenant preventing the executives from engaging in specified activities after their employment with the consolidated entity ceases.

Executive service agreements have been entered into with each of Christopher Aylward, Clive Appleton and Howard Brenchley.

The key commercial terms of these executive service agreements are summarised below:

- Christopher Aylward has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $200,000 per annum.
- Clive Appleton has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $650,000 per annum.
- Howard Brenchley has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $500,000 per annum.

Dated at Melbourne this 30th day of September 2005.

Signed in accordance with a resolution of the directors:

Christopher Aylward
Executive Chairman

Clive Appleton
Managing Director

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of APN Property Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Don Pasquariello

Don Pasquariello
Partner
Melbourne
30 September 2005

Statements of Financial Performance

For the Period ended 30 June 2005

	Note	Consolidated 2005 $	The Company 2005 $
Total revenue from ordinary activities	2	63,638,742	615,656
Project and construction activities	3	(18,420,116)	–
Cost of development property sold	3	(26,171,256)	–
Employee costs		(5,779,531)	(55,000)
Depreciation and amortisation expenses	3	(1,875,197)	–
Borrowing costs	3	(534,459)	(464,392)
Administration costs		(1,807,730)	–
Fund management fee expenses		(3,864,827)	–
Provision for intercompany loans	3	–	(1,438,579)
Other expenses from ordinary activities		(943,294)	(165,521)
Profit/(loss) from ordinary activities before related income tax expense		4,242,332	(1,507,836)
Income tax (expense)/benefit relating to ordinary activities	5(a)	(1,808,045)	117,019
Net profit/(loss)		2,434,287	(1,390,817)
Non-owner transaction changes in equity			
Total revenues, expenses and valuation adjustments recognised directly in equity		–	–
Total changes in equity from non-owner related transactions		2,434,287	(1,390,817)
Basic earnings per share			
Ordinary shares	24	2.62 cents	
Diluted earnings per share			
Ordinary shares	24	2.62 cents	

The Statements of Financial Performance are to be read in conjunction with the notes to the financial statements set out on pages 19 to 58.

Statements of Financial Position

As at 30 June 2005

	Note	Consolidated 2005 $	The Company 2005 $
Current assets			
Cash assets	6	4,318,919	1,431,475
Receivables	7	46,533,749	21,219,986
Inventories	8	36,100,987	–
Other financial assets	9	14,068,509	31,791,500
Current tax assets	5(b)	474,626	474,626
Other	10	680,876	68,594
Total current assets		102,177,666	54,986,181
Non-current assets			
Intangibles	11	31,141,875	–
Property, plant and equipment	12	561,536	–
Deferred tax assets	5(c)	3,777,463	3,777,463
Total non-current assets		35,480,874	3,777,463
Total assets		137,658,540	58,763,644
Current liabilities			
Payables	13	11,458,701	6,815,504
Interest-bearing liabilities	14	70,393,351	5,703,164
Current tax liabilities	5	–	–
Provisions	15	5,707,347	–
Total current liabilities		87,559,398	12,518,668
Non-current liabilities			
Deferred tax liabilities	5(d)	4,229,332	4,229,332
Provisions	15	29,064	–
Total non-current liabilities		4,258,396	4,229,332
Total liabilities		91,817,794	16,748,000
Net assets		45,840,748	42,015,644
Equity			
Contributed equity	17	43,727,265	43,727,265
Retained profits	18	2,113,483	(1,711,621)
Total equity	20	45,840,748	42,015,644

The Statements of Financial Position are to be read in conjunction with the notes to the financial statements set out on pages 19 to 58.

Statements of Cash Flows

For the Period ended 30 June 2005

	Note	Consolidated 2005 $	The Company 2005 $
Cash flows from operating activities			
Cash receipts in the course of operations		45,216,306	173,246
Cash payments in the course of operations		(59,286,941)	(103,291)
Dividends received		–	192,972
Interest received		578,507	68,771
Borrowing costs paid		(534,459)	(464,391)
Income tax paid		(1,099,520)	(474,626)
Net cash provided by/(used in) operating activities	21(ii)	(15,126,107)	(607,319)
Cash flows from investing activities			
Payment for investments		(7,798,293)	(537,000)
Payments for property, plant and equipment		(280,692)	–
Payments for related party loans		(4,568,827)	(12,630,663)
Proceeds from share buy back from controlled entity		–	853,000
Net cash provided by/(used in) investing activities		(12,647,812)	(12,314,663)
Cash flows from financing activities			
Proceeds from borrowings		16,520,657	5,703,164
Repayment of related party loans		(2,450,000)	–
Proceeds from related party borrowings		7,200,000	582,579
Proceeds from share raising		31,039,641	31,039,641
Transaction costs from issue of shares		(1,543,623)	(1,543,623)
Payments for share buy back		(21,107,500)	(21,107,500)
Dividends paid		(320,804)	(320,804)
Net cash provided by/(used in) financing activities		29,338,372	14,353,457
Net increase/(decrease) in cash held		1,564,453	1,431,475
Operating cash accounts acquired through acquisition of a controlled entity		2,754,465	–
Cash at the beginning of the financial period		–	–
Cash at the end of the financial period	21(i)	4,318,919	1,431,475

The Statements of Cash Flows are to be read in conjunction with the notes to the financial statements set out on pages 19 to 58.

Notes to the Financial Statements

For the Period ended 30 June 2005

Note 1 Statement of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Joint venture operations

The consolidated entity's interests in unincorporated joint ventures are bought to account by including its share of joint venture operations assets, liabilities and expenses and the consolidated entities revenue from the sale of its share of output on a line-by-line basis, from the date joint control to the date that joint control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) on an accruals basis.

Funds management services

Revenue comprises management fee income earned from the provision of funds management services net of the amount of GST.

Management fee income is recognised on an accruals basis as soon as it becomes due and payable.

Construction contracts

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

Stage of completion is calculated on the value of works completed as a percentage of the estimated total value of the contract, as assessed by reference to surveys of work performed.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Dividends or distributions

Dividend revenue is recognised net of any franking credits.

Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from associates and other investments is recognised when dividends are received.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

(d) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings.

Notes to the Financial Statements

For the Period ended 30 June 2005

Note 1 Statement of significant accounting policies *continued*

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being bought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not bought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only bought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 22. The implementation date for the tax-consolidated group is 1 July 2004, being the date of incorporation of the parent entity. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a "stand-alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

(g) Cash assets and bank overdrafts

Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn.

(h) Receivables

The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade debtors are to be settled within 60 days and are carried at amounts due.

(i) Inventories

Construction and development Work in Progress

Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses, allocated between amounts due from customers and amounts due to customers (in trade creditors).

Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract.

Properties held for resale

Development properties are carried at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, and holding costs such as borrowing costs, rates and taxes. Borrowing costs and other holding costs incurred after completion of development are expensed.

(j) Depreciation/Amortisation

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of freehold land, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	Depreciation/ Amortisation Rate	Depreciation Method
Property Plant and Equipment		
Plant and equipment	10 – 40%	Prime Cost
Intangibles		
Goodwill	20 years	

(k) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

(l) Revaluations of non-current assets

Classes of non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from fair value at reporting date. Independent valuations are obtained at least every three years. Revaluation increments, on a class of assets basis, are recognised in the asset revaluation reserve except that amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

Potential capital gains tax is only taken into account if the asset is held for sale.

(m) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(n) Interest bearing liabilities

Bank loans are carried on the statement of financial position at their principal amount subject to set off arrangements. Interest expense is accrued at the contracted rate and included in "Other creditors and accruals".

(o) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for wages and salaries (including non-monetary benefits), annual leave and sick leave expected to be settled within 12 months of the year end representing present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration rates that the consolidated entity expects to pay at reporting date including related on-costs.

Non-accumulating non-monetary benefits, such as interest free loans, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee share and option plans

Where shares or options are issued to employees, including directors, as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

Other shares or options issued to employees, including directors, are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation plan

The Company and its controlled entities contribute to defined contribution superannuation plans. Contributions are recognised as an expense as they are made. The Company and its controlled entities have no legal or constructive obligation to fund any deficit.

(p) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

Notes to the Financial Statements

For the Period ended 30 June 2005

Note 1 Statement of significant accounting policies *continued*

(p) Provisions *continued*

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefit required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision;
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

(q) Derivatives

The consolidated entity is exposed to changes in interest rates from its activities. The consolidated entity uses interest rate swaps to hedge this risk. Derivative financial instruments are not held for speculative purposes.

(r) Acquisitions of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(d).

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

(s) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer to Note 1(k).

Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount. Refer to Note 1(k).

(t) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Linked transactions involving the legal form of a lease are accounted for as one transaction when the series of transactions are negotiated as one, take place concurrently or in sequence or cannot be understood economically without reference to the series of transactions as a whole.

Linked transactions are not considered leases where the consolidated entity retains all risks and rewards of ownership and enjoys substantially the same benefits as before the arrangement, the primary purpose for the transactions are not to convey the right to use the asset or an option exists, with terms making exercise almost certain. Where lease accounting is not applicable, assets are recognised only when they are controlled, future benefits are probable and they can be reliably measured. Liabilities are recognised only when a present obligation exists, it is probable sacrifice of resources will be required and it is capable of reliable measurement.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(u) Goodwill
Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

For associates and joint venture entities, the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amounts.

(v) Financial instruments issued

Other financial instruments

Where financial instruments have no fixed maturity, are redeemable at the option of the Company and have no cumulative interest obligations, the proceeds received are classified as equity and the related distributions as dividends.

(w) Earnings per share
Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(x) Financial period
The Company was incorporated 1 July 2004. Accordingly no comparatives are available for the previous reporting period.

Note 2 Revenue from ordinary activities

	Consolidated 2005 $	The Company 2005 $
Revenue – construction services	15,641,785	–
Funds management fees	14,920,239	–
	30,562,024	–
Other revenues from ordinary activities:		
From operating activities		
Sale of development property	31,490,794	–
Reimbursements received	307,003	226,081
Other	700,414	320,804
Interest	578,507	68,771
	33,076,718	615,656
From outside operating activities		
Gross proceeds from sale of non current assets	–	–
	–	–
Total revenue from ordinary activities	63,638,742	615,656

Note 3 Profit from ordinary activities before income tax expense

	Consolidated 2005 $	The Company 2005 $
Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:		
Project and construction activities	18,420,116	–
Cost of development property sold	26,171,256	–
Borrowing costs:		
Other parties	534,459	464,392
Depreciation of:		
Plant and equipment	83,476	–
Amortisation of:		
Leased assets	34,402	–
Goodwill amortised	1,341,197	–
Rental expense	271,880	–
Individually significant expenses included in profit/(loss) from ordinary activities before income tax (expense)/benefit		
Construction loss provision	2,302,105	–
Construction loss provision utilised	(3,592,081)	–
Development loss provision	950,000	–
Redundancy provision	750,000	–
Write-off of goodwill	413,842	–
Provision for inter company loans	–	1,438,579

Note 4 Auditors' remuneration

	Consolidated 2005 $	The Company 2005 $
Audit services		
Auditors of the company – KPMG Australia		
Audit and review of the financial reports	340,000	50,000
Other Services	150,000	150,000
	490,000	200,000

Other services related to due diligence services provided by KPMG Transaction Services as part of the listing of APN Property Group Limited on the ASX.

Note 5 Income tax

	Consolidated 2005 $	The Company 2005 $
(a) Income tax expense		
Prima facie income tax expense/(benefit) calculated at 30% on the profit from ordinary activities	1,272,700	(452,351)
Increase/(decrease) in income tax expense due to:		
Non deductible provision for intercompany loans	–	431,575
Non deductible amortisation expenditure	526,311	–
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries of the tax consolidated group	–	(1,920,457)
Recovery of income tax expense under a tax funding agreement	–	1,920,457
Non assessable dividends received from wholly owned subsidiaries	–	(96,243)
Non deductible other expenses	9,035	–
Individually significant income tax items:		
Net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of tax consolidation	–	(1,345,927)
Recovery of income tax expense under a tax funding agreement at transition	–	1,345,927
Income tax expense/(benefit) attributable to profit from ordinary activities	1,808,045	(117,019)
Income tax expense/(benefit) attributable to profit from ordinary activities is made up of:		
Current income tax provision	72,063	(117,019)
Deferred tax assets	1,735,982	–
	1,808,045	(117,019)
(b) Current tax assets		
Provision for current income tax		
Movements during the period were as follows:		
Balance at beginning of period	–	–
Balance of tax provision acquired through the acquisition of controlled entities	616,268	–
Income tax expense related to wholly-owned subsidiary transactions in a tax consolidated group	–	189,082
Income tax paid, including current period instalments	(1,090,894)	(474,626)
Current period's income tax expense/(benefit) on profit from ordinary activities	72,063	(117,019)
Tax losses utilised	(72,063)	(72,063)
Income tax payable/(receivable)	(474,626)	(474,626)
(c) Deferred tax asset		
Future income tax benefit		
Future income tax benefit comprises the estimated future benefit, at the applicable rate of 30% on the following items:		
Provisions and accruals not currently deductible	156,723	156,723
Difference in depreciation of property, plant and equipment for accounting and tax purposes	–	–
Timing differences arising on construction and development activities	791,885	791,885
Taxable construction profit not yet bought to account	419,424	419,424
Tax losses carried forward	2,409,431	2,409,431
	3,777,463	3,777,463

Note 5 Income tax *continued*

	Consolidated 2005 $	The Company 2005 $
(c) Deferred tax asset *continued*		
Future income tax benefit not taken to account		
Future income tax benefit – not recognised in the current period comprises the estimated future benefit, at the applicable rate of 30% on the following items:	–	–
Provisions and accrued employee entitlements not currently deductible	–	–
Tax losses carried forward	–	–
	–	–
(d) Deferred tax liabilities		
Provision for deferred income tax		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:		
Development expenditure deductible prior to recognition of project profits	3,624,174	3,624,174
Development profit not assessable until sale of entire project	605,158	605,158
Prepayments	–	–
	4,229,332	4,229,332

Note 6 Cash assets

	Consolidated 2005 $	The Company 2005 $
Cash at bank and on hand	4,318,919	1,431,475

Note 7 Receivables

	Consolidated 2005 $	The Company 2005 $
Current		
Trade debtors	6,712,242	–
Loans to controlled entities	–	16,519,992
Provision for diminution of intercompany loans	–	(1,438,579)
Net loans to controlled entities	–	15,081,413
Other debtors	2,276,468	112,074
Vendor loans receivable	31,490,794	–
Other loans receivable	6,054,245	6,026,499
	46,533,749	21,219,986

The weighted average effective interest rate on the vendor loan receivable is 7.34% as at the 30th June 2005.

Other loans receivable include loans to directors, details of which are set out in Note 27 and loans to related parties, details of which are set out in Note 27.

Further details of loans to controlled entities are also set out in Note 27.

Note 8 Inventories

	Consolidated 2005 $	The Company 2005 $
Current		
Construction work in progress	15,803,101	–
Provision for construction loss	(462,387)	–
Construction work in progress net of provision	15,340,714	–
Development properties	10,566,149	–
Development costs capitalised	12,063,983	–
Provision for development loss	(1,869,859)	–
Development activities net of provision	10,194,124	–
	36,100,987	–
Construction work in progress comprises:		
Construction work in progress acquired through the acquisition of an entity	8,796,523	–
Construction costs incurred post acquisition date	16,831,314	–
Profit recognised post acquisition date	1,042,197	–
Loss recognised post acquisition date	(3,592,081)	–
Progress billings	(7,274,851)	–
Construction work in progress	15,803,101	–
Construction work in progress provision acquired through the acquisition of an entity	(1,752,364)	–
Provisions made during the period	(2,302,105)	–
Utilisation of provision	3,592,081	–
Construction work in progress provision	(462,387)	–
Net construction work in progress	15,340,714	–
Retentions on construction projects in progress included in progress billings	690,750	–
Advances on constructions projects included in trade creditors	(3,484,021)	–

Note 9 Other financial assets

	Consolidated 2005 $	The Company 2005 $
Investments in related parties	539,461	31,791,500
Investments in cash deposits	13,529,048	–
Investments – other	–	–
	14,068,509	31,791,500

Short-term deposits

Short-term deposits mature within 30 days and pay interest at a weighted average interest rate of 5.33% at 30 June 2005.

Note 10 Other current assets

	Consolidated 2005 $	The Company 2005 $
Accrued income	483,139	68,594
Prepayments	197,737	–
	680,876	68,594

Notes to the Financial Statements

For the Period ended 30 June 2005

Note 11 Intangible Assets

	Consolidated 2005 $	The Company 2005 $
Goodwill		
At cost	33,122,159	–
Accumulated amortisation	(2,007,419)	–
	31,114,740	–
Formation Costs		
At cost	27,547	–
Accumulated amortisation	(6,992)	–
	20,555	–
Trade Marks	6,580	–
Total Intangible Assets	31,141,875	–

Note 12 Property, plant and equipment

	Consolidated 2005 $	The Company 2005 $
Buildings		
At cost	10,267	–
Accumulated depreciation	–	–
	10,267	–
Leasehold improvements		
At cost	190,051	–
Accumulated depreciation	(50,018)	–
	140,033	–
Plant and equipment		
At cost	836,582	–
Accumulated depreciation	(425,346)	–
	411,236	–
Net property, plant and equipment	561,536	–

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2005 $	The Company 2005 $
Buildings		
Carrying amount at beginning of period	–	–
Acquisition through entity acquired	10,267	–
Additions	–	–
Disposals	–	–
Depreciation	–	–
Carrying amount at end of period	10,267	–
Leasehold improvements		
Carrying amount at beginning of period	–	–
Acquisition through entity acquired	155,928	–
Additions	18,507	–
Disposals	–	–
Amortisation	(34,402)	–
Carrying amount at end of period	140,033	–

Note 12 Property, plant and equipment *continued*

	Consolidated 2005 $	The Company 2005 $
Reconciliations *continued*		
Plant and equipment		
Carrying amount at beginning of period	–	–
Acquisition through entity acquired	235,040	–
Additions	259,672	–
Disposals	–	–
Depreciation	(83,476)	–
Carrying amount at end of period	411,236	–

Note 13 Payables

	Consolidated 2005 $	The Company 2005 $
Current		
Trade creditors	6,030,910	609,138
Retentions withheld	664,224	–
Related party loans owing	–	6,117,146
Other creditors and accruals	4,763,567	89,220
	11,458,701	6,815,504

Note 14 Interest-bearing liabilities

	Consolidated 2005 $	The Company 2005 $
Current		
Bank loans – secured	63,193,351	5,703,164
Loan from related party	7,200,000	–
	70,393,351	5,703,164
Financing arrangements		
The Company has access to the following lines of credit:		
Total facilities available:		
Bank loans	6,000,000	6,000,000
Project funding facilities	54,110,000	–
Loan from related party	7,200,000	–
Other loans	5,500,000	–
	72,810,000	6,000,000
Facilities utilised at balance date:		
Bank loans	5,703,164	5,703,164
Project funding facilities	51,990,186	–
Loan from related party	7,200,000	–
Other loans	5,500,000	–
	70,393,351	5,703,164

Note 14 Interest-bearing liabilities *continued*

	Consolidated 2005 $	The Company 2005 $
Facilities not utilised at balance date:		
Bank loans	296,836	296,836
Project funding facilities	2,119,814	–
Loan from related party	–	–
Other loans	–	–
	2,416,649	296,836

Bank loan

The bank loans are project specific facilities in place for the funding of the ongoing development and construction projects of the group.

Pledged assets

Bank loans amounting to $5,703,164 are secured by a floating charge over all the Company's assets.

A bank loan amounting to $59,000,000 is secured in full by a registered mortgage over the development property of a joint venture operation, of which a controlled entity has a 50% interest. At balance date, the consolidated entity has recorded its 50% share of the joint venture's net assets including its $29,500,000 share of the liability relating to the bank loan. On 30 June 2005 the property was partly sold. The sale involved a vendor loan to the purchaser of $31,490,794 repayable by 21 December 2005. The bank loan remains mortgaged against the property until the repayment of the vendor loan, at which time the bank loan will be repaid.

Bank loans totalling $51,990,186 (including the $29,500,000 noted above) in project specific funding has been provided to controlled entities. These liabilities are project specific and are secured by a variety of securities which include:

- mortgages over land or buildings;
- guarantees by APN Development and Delivery Pty Ltd, a controlled entity;
- first ranking charges over the assets and undertaking of the specific controlled entity undertaking each project; and
- registered charges over the shares that APN Development and Delivery Pty Ltd holds in its subsidiaries.

The Company has no risk in relation to these liabilities other than to the value of its investment specific to the controlled entity to which the project relates.

Loans from related parties totalling $7,200,000 are unsecured.

Bank Guarantees

The consolidated entity has in place, at balance date, the following bank guarantees:

Project specific guarantees

Cash of $10,586,250 has been provided as security against the following guarantees:

A bank guarantee for $385,000 in favour of Multiplex Limited has been provided as security for additional works being undertaken as part of a development project by a controlled entity.

A bank guarantee for $1,000,000 in favour of Capital Australia Finance Limited (CAFL) and Babcock & Brown Real Estate Finance Pty Limited has been provided as security for funding a project undertaken by a controlled entity.

A security deposit for $500,000 in favour of Westpac Banking Corporation has been provided as security for funding a project undertaken by a controlled entity in conjunction with its joint venture activities. Further security deposits of $1,500,000 has been provided by Holus Nominees Pty Limited.

A bank guarantee of $7,200,000 in favour of Victoria Point Docklands Limited (VPDL) has been provided as security to guarantee the deposit and variations relating to the purchase of the Signature Building by the APN Office Fund.

A bank guarantee for $810,500 in favour of CAFL has been provided as security for construction retentions relating to the Liverpool Street construction contract.

A bank guarantee for $690,750 in favour of Mutual Help Limited has been provided as security for construction retentions relating to the Emmy Monash construction contract.

Other

As security for the entity's obligations as tenant of its primary place of business, there is a bank guarantee in place up to the value of $150,000.

Note 15 Provisions

	Consolidated 2005 $	The Company 2005 $
Current		
Dividends	5,399,096	–
Employee entitlements	308,251	–
	5,707,347	–
Non-current		
Employee entitlements	29,064	–
Reconciliations		
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:		
Dividends		
Carrying amount at the beginning of the period	–	–
Provisions made during the period	–	–
Increase through acquisition of entity	5,399,096	–
Payments made during the period	–	–
Carrying amount at end of period	5,399,096	–
Development loss provision (see Note 8)		
Carrying amount at the beginning of the period	–	–
Provisions made during the period	950,000	–
Increase through acquisition of entity	919,859	–
Payments made during the period	–	–
Carrying amount at end of period	1,869,859	–
Construction loss provision (see Note 8)		
Carrying amount at the beginning of the period	–	–
Provisions made during the period	2,302,105	–
Increase through acquisition of entity	1,752,364	–
Provision utilised	(3,592,081)	–
Carrying amount at end of period	462,387	–

Note 16 Employee benefits

	Consolidated 2005 $	The Company 2005 $
Aggregate liability for employee benefits including on costs:		
Current	308,251	–
Non-current	29,064	–
	337,315	–
The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:		
Assumed rate of increase in wage and salary rates	3%	–
Discount rate	6%	–
Settlement term (years)	10	–
Number of employees		
Number of employees at period end	49	–

Notes to the Financial Statements

For the Period ended 30 June 2005

Note 16 Employee benefits *continued*

Superannuation Plans

The Consolidated entity contributes to various industry superannuation funds and a number of employee nominated superannuation funds.

Equity Based Plans

APN Property Group Limited Senior Executive Share Plan No. 1

By deed dated 10 September 2004 between the Company and APN Property Group Nominees Pty Limited as trustee (Trustee), the APN Property Group Limited Senior Executive Share Plan No. 1 was established.

By Board resolution new rules for that plan were adopted and the name of the plan was changed to the APN Property Group Employee Share Purchase Plan (Employee Purchase Plan).

Each participant in the Employee Purchase Plan may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the Trustee's recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee. Any dividends received in respect of the shares held on trust will first be used to repay the loan.

The shares issued under the Employee Purchase Plan are ordinary shares with same entitlements to dividends and voting as ordinary shareholders. As part of the terms of issue, the Company may place restrictions on shares.

The fair value of shares issued during the reporting period at their issue date is the market price of the shares at the time of issue.

Provided that the shares are not restricted, an employee may direct the Trustee to sell the shares, in which case the proceeds of the sale will be used to pay off the balance of the loan and any surplus will be paid to the employee.

On 10 September 2004, 756,348 ordinary shares were issued with a value of $756,348. On 28 April 2005, as part of the share sub division, the number of shares became 2,452,459.

On 20 June 2005, as part of the initial public offering, 645,000 shares were issued with a value of $645,000 to eligible employees under the scheme. The employees offered shares at this time are restricted from dealing in those shares for a period of 2 years.

As at 30 June 2005, shares held as part of the Employee Purchase Plan totalled 3,097,459 which were all issued during the reporting period. The value of these shares included in contributed equity is $1,401,348.

As at 30 June 2005, the carrying value of the loans made under the scheme totalled $1,401,348.

Clive Appleton Share Trust

Interest in shares in the Company of Mr Clive Appleton, the Managing Director of the Company, is held by APN Property Group Nominees Pty Limited (Trustee) as trustee for the Clive Appleton Share Trust (Trust) which was established by deed dated 10 September 2004.

On 10 September 2004, 3,084,039 ordinary shares with a value of $3,084,039 were issued to the Trustee for the benefit of Lesinca Pty Limited in its capacity as trustee for the Lesinca Trust (an entity controlled by Clive Appleton) (Beneficiary). The shares issued under the scheme are ordinary shares with same entitlements to dividends and voting as ordinary shareholders.

The Company lent to the Trustee for the benefit of the Beneficiary the funds to subscribe for the shares. The loan is interest free and limited recourse, with the Trustee's recourse limited to the net proceeds from the sale of the shares. On 28 April 2005, as part of the share sub division, the number of shares became 10,000,001.

Of the 10,000,001 shares issued to Mr Clive Appleton, 4,000,000 are subject to forfeiture and therefore restricted. The remaining 6,000,001 shares vested for successfully listing the Company on the ASX. The restricted Shares will become vested as follows:

- up to 50% of the restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2006 year; and
- the remaining restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The unrestricted shares may be dealt with as follows:

- the Trustee may transfer unrestricted shares to the Beneficiary provided that the Beneficiary has repaid the loan in respect of those shares; or
- the Beneficiary may repay the loan in respect of the shares and direct the Trustee to transfer the shares to the Beneficiary or direct the Trustee to sell the shares (provided that the amount of the loan outstanding is less than the proceeds of sale), with the net proceeds of any sale of unrestricted shares applied as follows:
  - first, in reduction of the loan outstanding; and
  - second, the balance to the Beneficiary.

The ability of the Trustee and the Beneficiary to sell or otherwise deal in the shares is subject to the voluntary escrow restrictions (refer to note 27).

As at 30 June 2005, the value of these shares included in contributed equity is $3,084,039.

As at 30 June 2005, the carrying value of the loans made under the scheme totalled $3,084,039.

Note 16 Employee benefits *continued*

APN Property Group Director/Executive Option Plan

The Board of the Company has established the APN Property Group Director/Executive Option Plan (Director/Executive Option Plan). Under the rules of the Director/Executive Option Plan, the Company may issue options to acquire shares to select executives for no consideration or at a discount to their market value.

The Director/Executive Option Plan rules give the Board significant flexibility to determine both the conditions of an offer to take up options and the conditions relevant to the exercise of the options.

As at 30 June 2005, no options had been issued under this scheme.

APN Property Group Employee Share Gift Plan

The Board of the Company has established the APN Property Group Employee Share Gift Plan (Employee Gift Plan). Subject to certain eligibility criteria, all permanent employees of the consolidated entity are entitled to participate in the Employee Gift Plan. Employees who receive employee gift shares will be restricted from dealing in those shares for a period of 3 years after issue.

During the restriction period, the employee gift shares will be subject to a holding lock and qualifying employees will be prohibited from disposing or otherwise dealing with their Employee Gift Shares. The Employee Gift Plan is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration.

The Employee Gift Plan complies with current Australian Tax legislation, enabling permanent employees to have up to $1,000 of free shares, in respect of an employee share scheme excluded from their assessable income.

The shares issued under the Employee Gift Plan are ordinary shares with same entitlements to dividends and voting as ordinary shareholders.

On 20 June 2005, 49 qualifying employees were each issued 1,000 shares as part of the Employee Gift Plan. For the year ending 30 June 2005, $49,000 has been recognised as employee expenses and $49,000 in contributed equity.

Note 17 Contributed equity

	Note	Consolidated 2005 $	The Company 2005 $
Issue and paid-up share capital			
115,049,000 (2004: Nil) ordinary shares, fully paid	17(a)	43,727,265	43,727,265
Nil (2004: Nil) 'A' class redeemable preference shares, fully paid	17(b)	–	–
Nil (2004: Nil) 'B' class redeemable preference shares, fully paid	17(c)	–	–
		43,727,265	43,727,265
(a) Ordinary shares			
Movements during the period			
Balance at the beginning of the year – (2004: Nil) shares		–	–
10 September 2004 new share issue – 27,000,000 shares issued as consideration for the acquisition of controlled entities		27,000,000	27,000,000
10 September 2004 new share issue – 3,840,386 shares issued to the Clive Appleton Share Trust and the Senior Executive Share Plan No 1		3,840,386	3,840,386
On 28 April 2005 a 3.2425 to 1 share subdivision occurred increasing the issued share capital to 100,000,000 shares		–	–
20 June 2005 new share issue – 31,000,000 shares issued via an initial public offering		31,000,000	31,000,000
20 June 2005 – transaction costs associated with issue of equity instruments		(2,162,121)	(2,162,121)
20 June 2005 – 49,000 employee gift shares issued		49,000	49,000
21 June 2005 – 16,000,000 shares bought back		(16,000,000)	(16,000,000)
Balance at end of year		43,727,265	43,727,265

Note 17 Contributed equity *continued*

(a) Ordinary shares *continued*

Acquisition of controlled entities – scrip for scrip roll over
On 10th September 2004, the Company acquired 100% of the capital on issue of APN Development and Delivery Pty Limited and APN Funds Management Limited.

The entities were acquired via a scrip for scrip issue of shares. At the time of acquisition the existing members of APN Development and Delivery Pty Limited and APN Funds Management Limited transferred all of their shares to the Company in exchange for the Company issuing shares carrying the same rights and obligations.

Employee Share Acquisition Plans
On 10 September 2004, the Company issued 3,840,386 shares to the employee share acquisition plans. Of this amount, 3,084,038 shares were issued to the Clive Appleton Share Trust and 756,348 to the APN Property Group Senior Executive Share Plan No 1. For further information relating to the employee share acquisition plans refer to note 16.

Share subdivision
On 28 April 2005, the Company's 30,840,386 ordinary shares on issue was subdivided into 100,000,000 ordinary shares.

Initial Public Offering
On 20 June 2005, 31,000,000 shares were issued to the public via an initial public offering. The issue costs of the raising totalling $2,162,121 have been offset against the equity raised.

Share buy-back
On 21 June 2005, as part of the listing of the Company on the ASX, the Company completed the buy-back of 16,000,000 ordinary shares for consideration of $1 per share, representing 12% of ordinary shares on issue on that date. The total consideration of shares bought back was $16,000,000.
The consideration for the buy-back was allocated to share capital in accordance with the buy-back agreement.

Employee ownership plan
Prior to the IPO, the Board of the Company established the APN Property Group Employee Share Gift Plan. As part of the IPO, qualifying employees were offered 1,000 ordinary shares as part of the plan. The number of qualifying employees offered shares under the scheme were 49. The total value of the shares gifted was $49,000.

(b) 'A' class redeemable preference shares

	Consolidated 2005 $	The Company 2005 $
Movements during the period		
Balance at the beginning of the year – (2004: Nil) shares	–	–
10 September 2004 new share issue – 4,620,000 shares issued as consideration for the acquisition of controlled entities	4,620,000	4,620,000
9 November 2004 share buy back – 853,000 shares bought back	(853,000)	(853,000)
21 June 2005 share buy back – 3,767,000 shares bought back	(3,767,000)	(3,767,000)
Balance at end of year	–	–

Share buy-back
On 9 November 2004, the Company completed the buy-back of 853,000 A Class Redeemable Preference shares, representing 18% of A Class Redeemable Preference shares on issue on that date, under the terms of the buy-back agreement dated 9 November 2004, approved by shareholders on 9 November 2004. The total consideration of shares bought back was $853,000. The consideration was allocated to share capital in accordance with the buy-back agreement.

On 21 June 2005, as part of the listing of the Company on the ASX, the Company completed the buy-back of the remaining 3,767,000 A Class Redeemable Preference shares for consideration of $1 per share. The total consideration of shares bought back was $3,767,000. The consideration for the buyback was allocated to share capital in accordance with the buy-back agreement.

Note 17 Contributed equity *continued*

(c) 'B' class redeemable preference shares

	Consolidated 2005 $	The Company 2005 $
Movements during the period		
Balance at the beginning of the year – (2004: Nil) shares	–	–
10 September 2004 new share issue – 487,500 shares issued as consideration for the acquisition of controlled entities	487,500	487,500
21 June 2005 share buy back – 487,500 shares bought back	(487,500)	(487,500)
Balance at end of year	–	–

Share buy-back

On 21 June 2005, as part of the listing of the Company on the ASX, the Company completed the buy-back of 487,500 B Class Redeemable Preference shares for consideration of $1 per share. The total consideration of shares bought back was $487,500. The consideration for the buyback was allocated to share capital in accordance with the buy-back agreement.

(d) Terms and conditions

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

A Class Redeemable Preference shares

Holders of A Class Redeemable Preference shares are entitled to receive a preferential but not cumulative dividend at 9% per annum as declared from time to time in priority to the holders of all other shares.

In the event of winding up of the Company, holders of A Class Redeemable Preference shares rank above the holders of ordinary shares and B Class Redeemable Preference shares and are entitled to the proceeds of liquidation only to the extent of the face value of the shares.

A Class Redeemable Preference Shares do not give their holders any right to vote at shareholder meetings, unless the meeting is to consider a motion that affects the rights and privileges of the holders of these shares. When entitled to vote, the holder has, on a show of hands, one vote, and on a poll, one vote for each A Class Redeemable Preference Share held.

A Class Redeemable Preference shares are redeemable solely at the option of the Company at any time by giving 14 days prior notice of intention to redeem. On redemption the shareholders will receive the amount of capital paid or credited as paid on the preference share.

As at 30 June 2005, there are no A Class Redeemable Preference shares on issue.

B Class Redeemable Preference shares

Holders of B Class Redeemable Preference shares are entitled to receive a preferential but not cumulative dividend at 9% per annum as declared from time to time in priority to the holders of all other shares other than A Class Redeemable Preference Shares.

In the event of winding up of the Company, holders of B Class Redeemable Preference shares rank above the holders of ordinary shares but behind the holders of A Class Redeemable Preference shares and are entitled to the proceeds of liquidation only to the extent of the face value of the shares.

B Class Redeemable Preference Shares do not give the holder any right to vote at shareholder meetings unless the meeting is to consider a motion that affects the rights and privileges of the holders of these shares. When entitled to vote the holder has, on a show of hands, one vote, and on a poll, one vote for each B Class Redeemable Preference Share held.

B Class Redeemable Preference shares are redeemable solely at the option of the Company at any time by giving 14 days prior notice of intention to redeem. On redemption the shareholders will receive the amount of capital paid or credited as paid on the preference share.

As at 30 June 2005, there are no B Class Redeemable Preference shares on issue.

Note 18 Retained profits

	Consolidated 2005 $	The Company 2005 $
Retained profits at beginning of year	–	–
Net profit/(loss) attributable to members of the parent entity	2,434,287	(1,390,817)
Dividends – ordinary shares	–	–
Dividends – preference shares	(320,804)	(320,804)
Retained profits/(losses) at the end of the year	2,113,483	(1,711,621)

Note 19 Dividends

Dividends recognised in the current period by the company are:

	Cents per share	Total $	Franked/ Unfranked	Date of payment
2005 Financial Period				
Ordinary shares				
No Dividend Declared				
'A' Class redeemable preference shares				
Interim 2005 preference	9.0	34,175	100 % Franked	30 September 2004
Interim 2005 preference	9.0	35,315	100 % Franked	29 October 2004
Interim 2005 preference	9.0	29,548	100 % Franked	30 November 2004
Interim 2005 preference	9.0	28,794	100 % Franked	30 December 2004
Interim 2005 preference	9.0	28,794	100 % Franked	31 January 2005
Interim 2005 preference	9.0	26,008	100 % Franked	28 February 2005
Interim 2005 preference	9.0	28,794	100 % Franked	31 March 2005
Interim 2005 preference	9.0	27,866	100 % Franked	30 April 2005
Interim 2005 preference	9.0	28,794	100 % Franked	31 May 2005
Interim 2005 preference	9.0	18,577	100 % Franked	20 June 2005
		286,665		
'B' Class redeemable preference shares				
Interim 2005 preference	9.0	24,402	100 % Franked	4 April 2005
Interim 2005 preference	9.0	7,333	100 % Franked	31 May 2005
Interim 2005 preference	9.0	2,404	100 % Franked	20 June 2005
		34,139		

Dividend franking account

	The Company 2005 $
Franking credits available to shareholders of the Company for subsequent financial years (2004: 30%)	3,321,317

The above available amounts are based on the balance of the dividend franking account at period-end adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at period-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables at period-end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Note 20 Total equity reconciliation

	Consolidated 2005 $	The Company 2005 $
Total equity at the beginning of the period	–	–
Total changes in parent entity interest in equity recognised in statement of financial performance	2,434,287	(1,390,817)
Transactions with owners as owners;		
Contributions of equity	64,834,765	64,834,765
Share buy-back	(21,107,500)	(21,107,500)
Dividends	(320,804)	(320,804)
Total changes in outside equity interests	–	–
Total equity at period end	45,840,748	42,015,644

Note 21 Notes to the statement of cash flows

(i) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated 2005 $	The Company 2005 $
Cash at bank	4,318,919	1,431,475
(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities		
Profit/(loss) from ordinary activities after income tax	2,434,287	(1,390,817)
Add/(less) non-cash items:		
Depreciation of property plant and equipment	117,878	–
Amortisation of goodwill	1,341,197	–
Write-off of goodwill	413,842	–
Provision against intercompany loans	–	1,438,579
Change in assets and liabilities adjusted for effects of disposal of controlled entities during the financial period:		
(Increase)/ decrease in trade debtors	(5,712,973)	–
(Increase)/ decrease in related party debtors	(34,037,467)	–
(Increase)/ decrease in other debtors	1,891,966	(112,074)
(Increase)/decrease in inventory	14,824,221	–
(Increase)/decrease in other assets	107,906	–
(Increase)/decrease in accrued income	(447,967)	(68,594)
(Decrease)/increase in provisions	(666,464)	–
(Decrease)/increase in payables	3,284,337	89,220
(Increase)/decrease in prepayments	–	28,010
(Increase)/decrease in deferred tax assets	1,192,287	1,192,287
(Increase)/decrease in income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries of the tax consolidated group	–	(1,914,462)
Increase/(decrease) in provision for income tax	(474,626)	(474,626)
(Increase)/decrease in deferred tax liabilities	605,469	605,158
Net cash provided by operating activities	(15,126,107)	(607,319)

Note 22 Controlled entities

(a) Particulars in relation to controlled entities

This report has been prepared using consolidated financial statements and principles. The parent entity, APN Property Group Limited, owns and controls 100% of the following entities.

Name	Date of effective control
Controlled entities	
APN Development and Delivery Pty Limited	10 September 2004
Australian Property Network (VIC) Pty Limited	10 September 2004
APN No 1 Pty Limited	10 September 2004
APN No 3 Pty Limited	10 September 2004
APN No 4 Pty Limited	10 September 2004
APN No 5 Pty Limited	10 September 2004
APN No 6 Pty Limited	10 September 2004
APN No 7 Pty Limited	10 September 2004
APN No 8 Pty Limited	10 September 2004
APN No 9 Pty Limited	10 September 2004
APN No 10 Pty Limited	10 September 2004
APN No 11 Pty Limited	10 September 2004
APN No 12 Pty Limited	10 September 2004
APN No 13 Pty Limited	10 September 2004
APN No 14 Pty Limited	10 September 2004
APN No 15 Pty Limited	10 September 2004
APN Funds Management Limited	10 September 2004
FM Management Services Pty Limited	10 September 2004
APN Group Pty Limited	10 September 2004
APN Property Group Nominees Pty Limited	2 July 2004

Other

During the period APN Property Group Limited acquired 100% of the equity on issue of Merryvalley Pty Ltd and its controlled entities. The acquired group was disposed of prior to year end with no material gain/loss on disposal.

The acquisition was made by the Company in its capacity as agent of the APN Development Fund.

During the time that the Company held 100% of the shares on issue of Merryvalley Pty Ltd, the Company had in place a contractual agreement with a third party, whereby the third party was exposed to the majority of the risks and rewards of Merryvalley Pty Ltd and its controlled entities. Accordingly, due to the existence of such an arrangement and applying the concept of temporary control and materiality, the Company has not included the results of Merryvalley Pty Ltd and its controlled entities in the operating results of the Group for the year ended 30 June 2005.

Note 22 Controlled entities *continued*

(b) Acquisition/disposal of controlled entities

The following controlled entities were acquired during the financial period:

Acquisitions of entities

During the financial period the consolidated entity purchased 100% of the capital on issue of APN Development and Delivery Pty Ltd (formerly Australian Property Network Pty Limited) and APN Funds Management Limited. Details of the acquisitions are as follows:

	APN Development and Delivery Pty Limited $	APN Funds Management Limited $	Total $
Consideration	6,000,000	26,107,500	32,107,500
Fair value of net assets of entity acquired:			
Property, plant and equipment	173,619	227,615	401,234
Other assets	17,865	476	18,341
Deferred tax asset	4,903,995	65,795	4,969,790
Cash assets	3,880,240	5,103,209	8,983,449
Inventories	50,083,614	–	50,083,614
Receivables	3,625,820	4,670,133	8,295,953
Loans	(52,964,672)	–	(52,964,672)
Payables	(7,904,156)	(1,951,077)	(9,855,233)
Current tax liability	–	(598,745)	(598,745)
Deferred tax liability	(3,623,863)	–	(3,623,863)
Provision for dividend	(5,399,096)	(362,712)	(5,761,808)
Other provisions	(256,374)	–	(256,374)
	(7,463,008)	7,154,694	(308,314)
Outside equity interests at acquisition	–	–	–
Goodwill on acquisition	13,463,008	18,952,806	32,415,814

On 10th September 2004, the Company acquired 100% of the capital on issue of APN Development and Delivery Pty Ltd (formerly Australian Property Network Pty Limited) and APN Funds Management Limited, and the operating results of these entities from that date have been included in the consolidated operating profit.

APN Development and Delivery Pty Ltd and its controlled entities provide building and construction services. APN Funds Management Limited and its controlled entities provide funds management services.

The entities were acquired via a scrip for scrip issue of shares. At the time of acquisition the existing members of APN Development and Delivery Pty Ltd and APN Funds Management Limited transferred all of their shares to the Company in exchange for APN Property Group Limited issuing shares carrying the same rights and obligations.

Note 23 Interest in Joint Venture Operations

The consolidated entity holds an interest of 50% in an unincorporated joint venture operation named 380 La Trobe Street Joint Venture, whose principle activity is the construction, development and subsequent sale of the development property at 380 La Trobe Street, Melbourne Victoria 3000.

For the Period ended 30 June 2005, the contribution of the joint venture to the operating result of the consolidated group was a profit of $4,758,114.

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 1.

Note 23 Interest in Joint Venture Operations *continued*

	Consolidated 2005 $	The Company 2005 $
Current assets		
Land	1,486,869	–
Capitalised development costs	1,665,293	–
Capitalised construction costs	8,772,524	–
Disclosed as inventories – development properties	11,924,686	–
Vendor loans receivable	31,490,794	–
Total current assets	43,415,480	–
Current liabilities		
Payables	(1,298,286)	–
Interest bearing liability	(29,500,000)	–
Loans – other	(500,000)	–
Total current liabilities	(31,298,286)	–

Note 24 Earnings Per Share

	Consolidated 2005 $
Classification of securities as ordinary shares	
All securities have been classified as ordinary shares and included in basic earnings per share.	
Earnings reconciliation	
Profit from ordinary activities after income tax expense	2,434,287
Net profit attributable to outside equity interests	–
Dividends paid on preference shares	(320,804)
Basic earnings	2,113,483
Weighted average number of shares as the denominator	
Number of basic earnings per share	
Ordinary shares	80,686,274

There are no dilutive potential ordinary shares on issue.

Note 25 Commitments

	Consolidated 2005 $	The Company 2005 $
Operating lease payable commitments		
Future non-cancellable operating lease rentals of plant and equipment, not provided for in the financial statements and payable:		
Within one year	281,745	–
One year or later and no later than five years	183,791	–
Later than five years	–	–
	465,536	–

The Company leases property under operating leases expiring from one to five years. Leases of property generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Note 25 Commitments *continued*

At call investment commitments

Future investment commitments to the APN Development Fund No 1

	Consolidated 2005 $	The Company 2005 $
Within one year	4,463,000	4,463,000

APN Property Group Limited has committed to invest $5 million into the APN Development Fund No 1 (APNDF1) on a pro rata basis with other investors in the Fund. During the current financial year, the Company invested $537,000 into the APNDF1. The Fund Manager of APNDF1 will determine during the life of the fund the associated requirement to draw down or "call" on the commitment to the APNDF1 to fund various development projects.

Note 26 Additional financial instruments disclosure

(a) Interest rate risk

The consolidated entity enters into interest rate swaps, to manage cash flow risks associated with the interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

Interest rate swaps

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and five years. Each contract involves monthly payment or receipt of the net amount of interest.

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value fluctuates as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets is as follows:

	Note	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in: 1 year or less $	1 to 5 years $	More than 5 years $	Non-interest bearing $	Total $
2005								
Financial assets								
Cash assets	6	1%	4,318,419	–	–	–	–	4,318,419
Current tax assets	5 (b)		–	–	–	–	474,626	474,626
Receivables	7		–	–	–	–	8,988,710	8,988,710
Receivables – vendor loans	7	7.35%	–	31,490,794	–	–	–	31,490,794
Receivables – other loans	7		–	–	–	–	6,054,245	6,054,245
Investment in cash deposits	9	5.33%	13,529,048	–	–	–	–	13,529,048
Investment in related parties	9		–	–	–	–	539,461	539,461
Other assets	10		–	–	–	–	680,876	680,876
			17,847,467	31,490,794	–	–	16,737,918	66,076,179
Interest rate swap*			29,500,000	(29,500,000)				
Financial liabilities								
Payables	13		–	–	–	–	11,458,701	11,458,701
Employee entitlements	16	6%	337,315	–	–	–	–	337,315
Project related loan	14	9.11%	46,788,315	5,500,000	–	–	–	52,288,315
Subordinated loan	14	20%	5,201,871	–	–	–	–	5,201,871
Loans from related parties	14	11.50%	–	7,200,000	–	–	–	7,200,000
Bank working capital facility	14	8.30%	5,703,164	–	–	–	–	5,703,164
Dividend	15		–	–	–	–	5,399,096	5,399,096
			58,030,665	12,700,000	–	–	16,857,797	87,588,462

* Notional principal amounts

Note 26 Additional financial instruments disclosure *continued*

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various countries and by performing extensive due diligence procedures on major new customers.

The consolidated entity is not materially exposed to any individual overseas country or individual customer.

Unrecognised financial instruments

Credit risk on derivative contracts, which have not been recognised on the statements of financial position, is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Interest rate swaps are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The credit risk on swap contracts is limited to the net amount to be received from counterparties on contracts that are favourable to the consolidated entity.

(c) Net fair values of financial assets and liabilities

Valuation approach

The consolidated entities financial assets and liabilities included in the statements of financial position are carried at amounts that approximate net fair value.

Unrecognised financial instruments

The valuation of financial instruments not recognised on the statement of financial position detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting dates.

The net fair value of interest rate swaps not recognised on the statement of financial position held as at the reporting date is a receivable of $7,437.

Recognised financial instruments

Monetary financial assets and financial liabilities not readily traded in an organised financial market at determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on market yield having regard to the timing of the cash flows. The carrying amount of bank term deposits, trade debtors, term debtors, other debtors, bank overdrafts, accounts payable, bank loans, lease liabilities, dividends payable and employee benefits approximate net fair value.

The net fair value of investments in unlisted shares in other corporations and interests in partnerships is determined by reference to the underlying net assets in an assessment of future maintainable earnings and cash flows of the respective corporations.

The valuation of financial instruments reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contract (net of transaction costs), or replace the contract at their current market rates. This is based on independent market quotation and determined using standard valuation techniques.

Note 27 Directors disclosures

The names of the persons who were directors of APN Property Group Limited during the financial year are as follows:

Name	Position	Appointed	Resigned
Christopher Aylward	*Chairman and Executive Director*	1 July 2004	
Clive Appleton	*Managing Director*	1 July 2004	
Howard Brenchley	*Executive Director*	1 July 2004	
Andrew Cruickshank	*Executive Director* (1 July 2004 – 21 June 2005) *Non Executive Director* (since 22 June 2005)	1 July 2004	
Adam Grollo	*Non Executive Director*	1 July 2004	22 April 2005

Particulars of directors' qualifications, other listed company directorships, experience and special responsibilities are detailed on page 3.

Note 27 Directors disclosures *continued*

Directors interests in share capital

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director, including their personally-related entities are as follows:

Ordinary Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Shares purchased during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors						
Christopher Aylward	–	49,123,688	–	–	–	49,123,688
Clive Appleton	–	–	–	10,000,001	–	10,000,001
Howard Brenchley	–	13,618,610	–	–	(1,000,000)	12,618,610
Andrew Cruickshank	–	16,536,862	–	–	(15,000,000)	1,536,862
Adam Grollo	–	8,268,380	1,731,621	–	–	10,000,001

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)). Note: The amounts disclosed in the above note relating to the shares issued are post the share subdivision which occurred on 28 April 2005. Refer to note 17(a) for details of share subdivision.

A Class Ordinary Preference Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors					
Christopher Aylward	–	4,620,000	–	(4,620,000)	–
Clive Appleton	–	–	–	–	–
Howard Brenchley	–	–	–	–	–
Andrew Cruickshank	–	–	–	–	–
Adam Grollo	–	–	–	–	–

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)).

B Class Ordinary Preference Shares

	Number held at 1 July 2004	Acquired through a share issue during the year	Acquired as remuneration	Shares bought back from IPO proceeds	Number held at the end of the period
Specified directors					
Christopher Aylward	–	292,500	–	(292,500)	–
Clive Appleton	–	–	–	–	–
Howard Brenchley	–	97,500	–	(97,500)	–
Andrew Cruickshank	–	97,500	–	(97,500)	–
Adam Grollo	–	–	–	–	–

Shares issued during the year relate to a scrip for scrip share offer made as consideration for the acquisition of controlled entities (refer to note 22(b)).

Note 27 Directors disclosures *continued*

Remuneration of directors and specified executives

	Primary benefits			Post employment	Other compensation	Total remuneration
	Salary & fees	Bonus	Non-monetary benefits	Super –annuation	Other	
	$	$	$	$	$	$
Directors						
Christopher Aylward	358,389	–	61,298	23,170	–	442,857
Andrew Cruickshank	370,948	–	42,382	16,154	–	429,484
Clive Appleton	664,021	–	–	11,585	104,000**	779,606
Howard Brenchley	504,203	–	–	11,585	–	515,788
	1,897,561	–	103,680	62,494	104,000	2,167,735

** – other compensation relates to the fair value of equity issued to Mr Clive Appleton under the Clive Appleton Share Trust. Refer to note 16 for further information.

The directors are of the opinion that there are no executives of the APN Property Group who meet the definition of specified executives, as defined in AASB 1046 'Director and Executive Disclosures by Disclosing Entities'.

Principles used to determine the nature and amount of executive remuneration

Remuneration of Non Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on and the responsibilities of the directors. The Board reviews non-executive directors' fees annually. The Board also seeks advice from independent remuneration consultants to ensure non-executive directors' fees are appropriate and in line with the market.

Fees payable to non-executive Directors must be by way of a fixed sum and not by way of a commission on, or a percentage of, profits or operating revenue. Executive Directors' remuneration must also not include a commission on, or percentage of, operating revenue.

Non-executive directors' fees including standing Board committee fees and subsidiary Board fees are determined within an aggregate annual fee pool limit, which is periodically recommended for approval by shareholders. At present that sum is fixed at a maximum of $500,000.

Subject to the Corporations Act, in addition to or substitution for the fees paid to a Director for carrying out their duties and responsibilities, if the Directors or shareholders request a Director to perform services or to undertake special exertions (such as living overseas) in addition to those required by the Corporations Act, the Directors can determine that the Company remunerate the Director for those services.

Remuneration of executive directors and specified executives

Remuneration levels for directors and senior executives are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The remuneration committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the directors and senior executives ability to control the performance of areas applicable to their responsibilities;
- the consolidated entity's performance including the consolidated entity's earnings and the growth in share price and returns on shareholder wealth; and
- the amount of incentives within each directors and senior executives remuneration.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Principles used to determine the nature and amount of executive remuneration *continued*

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance-linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided through offering shares in the Company via the APN Property Group Limited Senior Executive Share Plan No. 1 (refer to Note 16). In the future it is foreseen that incentives will also be provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan (refer to Note 16).

Short-term incentive bonus

Each year the remuneration committee sets the KPI's (key performance indicators) for the executive directors and senior executives. The KPI's generally include measures relating to the consolidated entity, the relevant business area, and the individual, and include financial, people, customer and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are "profit after tax" and "return on capital employed" of relevant business area compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development.

At the end of the financial year the remuneration committee assess the actual performance of the consolidated entity, the relevant business area and individual against the KPI's set at the beginning of the financial year. No bonus is awarded where performance falls below the minimum.

The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

No bonuses were paid to either specified Directors and specified executives during the period.

Long-term incentive

Shares in the Company may be offered to Directors and Specified executives through Executive Share Purchase Plans.

Each participant in the Executive Share Purchase Plan (the plan) may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee of the plan. Any dividends received in respect of the shares held on trust will first be used to repay the loan.

During the period, shares in the Company were issued to Mr Clive Appleton, the Managing Director of the Company.

The shares issued to Mr Clive Appleton are held by APN Property Group Nominees Pty Limited (Trustee) as trustee for the Clive Appleton Share Trust (Trust). The Trust was established by deed dated 10 September 2004. The Trustee holds 10,000,001 Shares for the benefit of Lesinca Pty Limited in its capacity as trustee for the Lesinca Trust (an entity controlled by Clive Appleton) (Beneficiary). The Company lent to the Trustee for the benefit of the Beneficiary the funds to subscribe for the shares. The loan is interest free and limited recourse, with the Trustee's recourse limited to the net proceeds from the sale of the shares.

The shares issued under the scheme are ordinary shares with same entitlements to dividends and voting as ordinary shareholders.

Of the 10,000,001 shares issued to Mr Clive Appleton, 4,000,000 are subject to forfeiture and therefore restricted. The remaining 6,000,001 shares vested for successfully listing the Company on the ASX. The restricted Shares will become vested as follows:

- up to 50% of the restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2006 year; and
- the remaining restricted shares may become vested (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The ability of the Trustee and the Beneficiary to sell or otherwise deal in the shares is subject to the voluntary escrow restrictions.

The fair value of the shares issued under this arrangement included in remuneration was $104,000.

As at 30 June 2005, the value of these shares included in contributed equity is $3,084,039.

As at 30 June 2005, the carrying value of the loans made under the scheme totalled $3,084,039.

Retention/retirement benefits

Retirement benefits are delivered under contributions to various superannuation plans. The plans provide for specified contribution amounts for employees in accordance with government regulations and company policies.

Note 27 Directors disclosures *continued*

Principles used to determine the nature and amount of executive remuneration *continued*

Subject to the Corporations Act and the ASX Listing Rules, the Company may pay a former Director, or the personal representative of a Director who dies in office, a retirement benefit in recognition of past services of an amount determined by the Directors.

The Directors may resolve that the Company enters into a contract with a Director providing for payment of a retiring benefit unless prohibited by the Corporations Act or the ASX Listing Rules.

Executive and Senior Management service agreements

Remuneration and other terms of employment for executive directors and the specified executives are formalised in service agreements or letters of employment.

Each of these agreements provide for various conditions including:

- an annual remuneration package and benefits including superannuation which is reviewed at least on an annual basis with reviews currently effective on 1st January;
- the basis of termination or retirement and the benefits and conditions as a consequence;
- agreed provisions in relation to annual leave and long service leave, confidential information, intellectual property; and
- a restrictive covenant preventing the executives from engaging in specified activities after their employment with the consolidated entity ceases.

Executive service agreements have been entered into with each of Christopher Aylward, Clive Appleton and Howard Brenchley.

The key commercial terms of these executive service agreements are summarised below:

- Christopher Aylward has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $200,000 per annum.
- Clive Appleton has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $650,000 per annum.
- Howard Brenchley has entered into a fixed term agreement until 31 December 2007 and thereafter terminable on three months notice. The agreement provides for a total remuneration package of $500,000 per annum.

Voluntary escrow

The Directors specified below (escrowed security holders) have each entered into a voluntary escrow deed with the Company pursuant to which they agree not to sell, transfer or otherwise dispose of their interests in the securities referred to below (escrowed securities) for an escrow period.

Each escrowed security holder may sell, transfer or otherwise dispose of its interests in the escrowed securities prior to the end of the escrow period:

(a) during a takeover bid (but the restrictions above apply to any escrowed securities which are not sold during the takeover bid unless a person and its associates take a relevant interest in at least 50% of the Company); or

(b) if a court approves a scheme of arrangement in relation to the Company which would result in a person and its associates taking a relevant interest in at least 50% of the Company.

The voluntary escrow deeds provide for the application of holding locks and/or transfer restrictions to the escrowed securities for the duration of the escrow period.

Specified directors	Escrow Period	Number of securities subject to escrow conditions
Christopher Aylward	Until release of the Company's financial results for the financial year ended 30 June 2006	39,298,950
	Until release of the Company's financial results for the half year ended 31 December 2005	4,912,369
	Until release of the Company's financial results for the financial year ended 30 June 2005	4,912,369
Clive Appleton	Until release of the Company's financial results for the financial year ended 30 June 2006	10,000,001
Howard Brenchley	Until release of the Company's financial results for the financial year ended 30 June 2006	12,618,610

Loans to Directors and specified executives

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the consolidated entity to each group of specified directors and specified executives, and the number of individuals in each group, are as follows:

	Held at 1st July 2004 $	Loans made through the share ownership plans of the Group $	Interest charged $	Interest not charged $	Balance at the end of the period $
Specified directors					
Clive Appleton	–	3,055,539	–	133,961	3,055,539
Adam Grollo	–	534,039	–	23,417	534,039
Total	–	3,589,578	–	157,378	3,589,578

The loan outstanding to Directors and specified executives was provided as part of the arrangement upon the issue of equity from equity based share acquisition plans provided by the Company. Subject to certain conditions Australian based permanent employees were eligible to participate in loan schemes established for Executives and employees as part of equity based share acquisition plans.

As part of the terms of the plans, eligible employees could apply for interest free loans from APN Property Group of varying amounts to acquire shares in the Group. Refer to Note 16 for further details relating to the schemes.

No write downs or allowances for doubtful receivables have been recognised in relation to any loans made to directors or specified executives.

Directors' transactions with the Company or its controlled entities

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the beginning of the financial period and there were no material contracts involving directors' interests existing at period-end.

On acquisition, the Company acquired loans totalling $2,232,715 payable to Holus Nominees Pty Limited, a director related entity, by a subsidiary, APN Development and Delivery Pty Ltd. During the period additional loans of $650,000 were made by Holus Nominees Pty Limited. Interest is being charged at 6% above the prevailing cash rate. Interest is accruing on a daily basis and is payable monthly. The loan was repayable on demand.

During the period, loans of $2,882,715 were repaid by APN Development and Delivery Pty Ltd to Holus Nominees Pty Limited. There was no outstanding loan at the end of the period. Interest on the loan was $60,708.

During the period, Holus Nominees Pty Limited and Melbourne Square Pty Ltd, director related entities, provided cash deposits as security for a bank guarantee of $7,200,000 obtained by APN No 12 Pty Limited, a controlled entity, to finance the purchase of land and buildings. The security was replaced by cash deposits of the Group during the period. Interest on the cash deposits outstanding as at the end of the period was charged at a rate of 11.25% reduced by the interest earned on cash deposits used as security for the bank guarantees. Interest paid and payable amounted to $299,892.

During the period, Holus Nominees Pty Limited, a director related entity, provided cash deposits as security for bank guarantees of $1,500,000 obtained by APN No 6 Pty Limited, a controlled entity, to provide security for project funding guarantees. Interest on the cash deposits outstanding as at the end of the period is charged at a rate of 11.5% reduced by the interest earned on cash deposits used as security for the bank guarantees. Interest paid and payable amounted to $10,702.

During the period, Holus Nominees Pty Limited, a director related entity, provided cash deposits as security for bank guarantees of $690,750 obtained by APN No 15 Pty Limited, a controlled entity, to provide security for construction retention guarantees. Interest on the cash deposits outstanding as at the end of the period is charged at a rate of 11.5% reduced by the interest earned on cash deposits used as security for the bank guarantees. Interest paid and payable amounted to $13,571. The security was replaced by cash deposits of the Group during the period.

During the period, Holus Nominees Pty Limited, a director related entity, provided cash deposits as security for bank guarantees of $810,500 obtained by APN No 10 Pty Limited, a controlled entity, to provide security for construction retention guarantees. Interest on the cash deposits outstanding as at the end of the period is charged at a rate of 11.5% reduced by the interest earned on cash deposits used as security for the bank guarantees. Interest paid and payable amounted to $16,040. The security was replaced by cash deposits of the Group during the period.

Note 27 Directors disclosures *continued*

Directors' transactions with the Company or its controlled entities *continued*

The Company provides Christopher Aylward and Andrew Cruickshank with lease motor vehicle benefits as part of their remuneration package. The Company also reimburses certain business expenses incurred by the directors in the daily operation of the business. These amounts are on normal terms and conditions and are trivial in nature.

Under the terms of the ordinary share buy back agreement, entities controlled by the Andrew Cruickshank and Howard Brenchley agreed to reimburse the company $375,000 and $25,000 respectively, as part of the underwriting fee arrangement with Grange Securities (as part of the listing of the company on the ASX).

On the acquisition of a controlled entity the Company acquired a pre-acquisition dividend payable of $5,399,096. Of this amount, $2,294,616 is payable to Chris Aylward (through Holus Nominees Pty Ltd), $2,294,616 payable to Adam Grollo (through Melbourne Light Pty Ltd) and $809,864 to Andrew Cruickshank (through Amsil Pty Ltd).

The dividend is payable on the earlier of a controlled entity receiving sufficient net proceeds from the sale of a development property or 31 December 2006.

Other related party transactions

During the period the controlled entity, APN Funds Management Limited, received a fee of $1,481,397 (2004: Nil) from APN Regional Property Fund for their assistance with due diligence, prospectus preparation and the co-ordination of property acquisitions.

During the period the controlled entity, APN Funds Management Limited, received a fee of $1,300,915 (2004: Nil) from APN National Storage Property Trust for their assistance with due diligence, prospectus preparation and the co-ordination of property acquisitions.

APN Funds Management Limited receives management fees for managing APN Property For Income Fund, APN Retirement Properties Fund, APN National Storage Property Trust, APN Property Plus Portfolio and APN Regional Property Fund. Management fees received during the period were $11,452,789 (2004: Nil). In addition the Company received administration fees of $685,138 (2004: Nil) for the provision of accounting, registry and customer service related services to the funds it manages.

During the period, APN Office Fund, provided a loan of $7,200,000 to APN No 12 Pty Limited, a controlled entity. Interest on the cash deposits outstanding as at the end of the period was charged at a rate of 11%. Interest paid and payable amounted to $108,888 (2004: $Nil).

Investments

At 30th June 2005, the Company and its controlled entities, held investments in the following funds, which it manages:

	Units 2005 No.	Distributions received/ receivable 2005 $
APN Property for Income Fund	82	18.00
APN Property Plus Portfolio	100	9.00
APN International Property for Income Fund	100	5.00
APN National Storage Property Trust	100	9.00
APN Property for Income Fund No 2	51	1.00
APN Development Fund No 1	537,000	–

APN Property Group Limited has committed to invest $5 million into the APN Development Fund No 1 (APNDF1) on a pro rata basis with other investors in the Fund. During the current financial year, the Company invested $537,000 into the APNDF1. The Fund Manager of APNDF1 will determine during the life of the fund the associated requirement to draw down or "Call" on the commitment to the APNDF1 to fund various development projects.

Receivables

Management fees receivable amounted to $5,171,565 (2004: $Nil) and other receivables due to the manager from the funds it manages amounted to $648,957 (2004: $Nil) at period-end.

All transactions with related parties are in the ordinary course of business and are conducted on normal terms and conditions.

During the period APN Funds Management Limited purchased $7,319 of printing and design services from Stargoal Pty Ltd, a director related entity, on normal commercial terms and conditions.

Transactions

During the course of the period, the Company, in the ordinary course of operations had loans owing to and owing from wholly owned subsidiaries. These loans were interest free and repayable at call by either party.

The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:

Other related party transactions *continued*

	Consolidated		The Company	
	2005 $	2004 $	2005 $	2004 $
Dividends from Wholly-owned controlled entities	–	–	320,804	–
Reimbursements	–	–	226,081	–
Provision for inter entity loans				
Wholly-owned controlled entities	–	–	(1,438,579)	–
Receivables				
Aggregate amounts receivable from non director related parties:				
Amounts receivable other than trade debts				
Current				
Loan advances to:				
Other related parties	–	–	1,569,612	–
Wholly-owned controlled entities – tax related balances	–	–	5,997,898	–
Wholly-owned controlled entities	–	–	10,522,094	–
Provision for inter entity loans	–	–	(1,438,579)	–
	–	–	16,651,025	–
Payables				
Aggregate amounts payable to non-director related parties:	–	–	–	–
Wholly-owned controlled entities – tax related balances	–	–	(5,891,783)	–
Amounts payable other than trade creditors	–	–	–	–
Current				
Wholly-owned controlled entities	–	–	(225,363)	–
	–	–	(6,117,146)	–

Note 28 Contingent liabilities

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the directors consider should be disclosed.

(a) The Victorian Workcover Authority ("VWA") has issued proceedings against a subsidiary of the Company and another unrelated defendant, under section 138 of the Accident Compensation Act 1985 (Vic). The VWA is seeking from the defendants recovery of weekly payments of compensation and medical and like expenses it has already paid totalling $63,284 and an indemnity for any future payments paid to or on behalf of the injured worker. The Company's is of the opinion that this claim falls within the ambit of the Contract Works and Liability insurance policy which ran until 31 May 2000 plus 12 months maintenance period.

(b) The consolidated entity holds an interest of 50% in the output of an unincorporated joint venture operation named 380 La Trobe Street Joint Venture, whose principle activity is the construction, development and subsequent sale of the development property at 380 La Trobe Street, Melbourne Victoria 3000. Upon the sale of the development property owned by the joint venture, an uplift fee is payable by a subsidiary of the consolidated entity to the original vendor of the land, by reference to the ultimate sale price of the development property. At the date of this report this amount cannot be reliably measured, as the development has not been sold.

(c) Under a design and construction contract that a subsidiary of the consolidated entity has entered into, if the subsidiary is late in the completion of the contracted works liquidated damages of $15,000 per day are payable to the other party.

Note 28 Contingent liabilities *continued*

(d) A subsidiary of the Company, APN Funds Management Limited (APNFM) is appealing against the decision of the Commissioner of State Revenue ("SRO") to impose stamp duty to the value of $3,172,950 on the land transfers affected when APNFM was appointed as trustee for the National Storage Victorian Property Trust, a related trust managed by APNFM. The financial impact on the consolidated entity is limited to the extent that APNFM has entered into a deed of indemnity with the vendor of the properties whereby it agreed to indemnify APNFM to the extent of any additional and unforeseen taxation liability incurred, either in its own capacity or as the responsible entity of the APN National Storage Property Trust or as trustee of the APN National Storage Property Trust which includes stamp duty liability; and under the constitution of the fund, APNFM has a right to be indemnified out of the funds of the APN National Storage Property Trust.

(e) The Company is called upon to give in the ordinary course of business guarantees and indemnities in respect of the performance by controlled entities and relates parties of their contractual and financial obligations. The value of these guarantees and indemnities is set out below.

APN Development and Delivery Pty Ltd (APN DD) guarantees the obligations of a controlled entity as landlord, with the guarantee being limited to the lesser of $1,800,000 or the actual damage sustained by Bendigo Bank Limited.

In the event that it takes a controlled entity longer to complete the project than is provided for in the development agreement, the controlled entity will be liable for the extra interest and holding costs and expenses. If the controlled entity does not achieve practical completion by the sunset date, and the client suffers loss and damage as a consequence, the client may terminate the development agreement, set-off any loss or damage that it may have suffered against the loan agreement between the controlled entity and a third party, and seek to recover any further loss.

Further, if completion is late and the loan facilities in place in relation to the project are not repaid, the lenders can exercise their right to enforce the securities they have provided. In turn, the client will have rights against the controlled entity to recover any of its loss and expense.

(f) A controlled entity is a 50% partner in a joint venture operation. As part of its contribution to the joint venture operation, the controlled entity contributed a constructed building with a fair value of $59,000,000. The funding for the construction of this building was undertaken by the controlled entity and not jointly with the controlled entity's joint venture partner. The ultimate responsibility for repayment of this debt is with the controlled entity.

(g) During the period action was instigated by the Building Industry Taskforce. This may result in litigation involving a controlled entity.

Note 29 Segment reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest or dividend-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Funds Management	Provision of funds management services.
Property construction and development	Building and construction services (including the provision of property and real estate advisory services).

Geographical segments

The consolidated entity operates predominantly within Australia, providing funds management services, and building and construction services.

Primary reporting – Business segments

	Construction & Development		Funds Management		Eliminations		Consolidated	
	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $
Revenue								
External segment revenue	48,194,859	–	15,375,111	–	–	–	63,569,970	–
Total segment revenue	48,194,859	–	15,375,111	–	–	–	63,569,970	–
Unallocated revenue	–	–	–	–	–	–	68,772	–
Total revenue							63,638,742	–
Result								
Segment result	(1,085,483)	–	7,018,950	–	–	–	5,933,467	–
Unallocated revenue and expenses							(1,691,135)	–
Profit from ordinary activities before income tax							4,242,332	–
Income tax (expense)/benefit							(1,808,045)	–
Profit from ordinary activities after income tax							2,434,287	–
Extraordinary items after tax							–	–
Net profit							2,434,287	–
Depreciation and amortisation	41,401	–	532,723	–	–	–	574,124	–
Non-cash expenses other than depreciation and amortisation	–	–	–	–	–	–	–	–
Individually significant items								
Redundancy provision	750,000	–	–	–	–	–	750,000	–
Write-down of goodwill	–	–	413,842	–	–	–	413,842	–
Construction loss provision	2,302,105	–	–	–	–	–	2,302,105	–
Construction loss provision utilised	(3,592,081)	–	–	–	–	–	(3,592,081)	–
Development loss provision	950,000	–	–	–	–	–	950,000	–
Assets								
Segment assets	88,165,222	–	14,625,834	–	(2,576,646)	–	100,214,410	–
Unallocated corporate assets							37,444,130	–
Consolidated total assets							137,658,540	–
Liabilities								
Segment liabilities	(96,390,417)	–	(3,890,215)	–	2,576,646	–	(97,703,986)	–
Unallocated corporate liabilities							5,886,192	–
Consolidated total liabilities							(91,817,794)	–

Note 30 Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

As the Company was incorporated post 30 June 2004, there are no opening transitional adjustments.

Transition management

The board has established an implementation project, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

As the Company was incorporated post 30 June 2004, there are no opening transitional adjustments.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

The design phase incorporated:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements;
- identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- development of revised AIFRS disclosures;
- formulation of accounting and business processes to support AIFRS reporting obligations;
- identification of required changes to financial reporting and business source systems; and
- development of training programs for staff.

The design phase is completed as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This phase continues to be work in progress at 30 June 2005.

It is noted that the expected impact of adopting AIFRS disclosed in this note is based on work-in-progress of the AIFRS project team and may be subject to change. In addition, certain choices of accounting policies and elections under AIFRS are still being analysed to determine the most appropriate policy for the Company and consolidated entity.

Further impacts of transition to AIFRS may be identified as the AIFRS project team conclude the implementation project. Accordingly, the impacts disclosed should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRS. There can be no assurances that all significant impacts of the transition to AIFRS have been identified.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report.

Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.

Impact of transition to AIFRS *continued*

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. As the Company was incorporated post 30 June 2004, there are no opening transitional adjustments.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Leased assets

Classification

At the date for transition to AIFRS leases will be classified as operating leases or finance leases on the basis of circumstance existing at inception of the lease. Under Australian GAAP certain leases were classified as operating leases that are classified as finance leases under AIFRS due to differences in the classification criteria. AIFRS requires consideration of the probability of expected risks and benefits not just the possible risks and benefits.

It is expected that there will be no material impact for the Company.

Make good provisions

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

It is expected that there will be no material impact for the Company.

(b) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment.

Other intangible assets

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses.

Other intangible assets consisting of formation costs and trade marks amounting to $27,571 have been written off for the AIFRS balance sheet as at 30 June 2005.

Amortisation

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively. The estimated useful lives are expected to be as follows:

	AIFRS	Current AGAAP
Goodwill	indefinite	20 years

Goodwill amortisation of $1,341,197 has been written back for AIFRS purposes.

(c) Impairment

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts.

Note 30 Impact of adopting Australian equivalents to International Financial Reporting Standards *continued*

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS (refer (b)), intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

It is expected that there will be no material impact for the Company.

Calculation of recoverable amount

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS the recoverable amount of the consolidated entity's non-current assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

Reversals of impairment

Under current Australian GAAP impairment losses have not been reversed.

Under AIFRS an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

It is expected that there will be no material impact for the Company.

(d) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

The expected impact on the consolidated entity and the Company at 30 June 2005, of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense is not considered to be material.

Tax consolidation

Under AIFRS accounting for the impact of the tax consolidation system in the separate financial statements of the members of a tax consolidated group is addressed by UIG 1052 Tax Consolidation Accounting. Wholly owned subsidiaries in a tax consolidated group must recognise their own tax amounts directly, and the current liability (asset) and any deferred tax asset relating to tax losses are assumed by the head entity.

Amounts treated under UIG 52 have been amended in the AIFRS reconciliation to reflect the requirements of UIG 1052. The Tax Funding Agreement and Tax Sharing Agreement will be amended as required.

(e) Employee benefits

Share based payments

Under current Australian GAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options. The fair value of options granted will be measured using an appropriate valuation method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

It is expected that there will be no material impact for the Company at 30 June 2005.

(f) Borrowing costs

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset.

Under AIFRS borrowing costs may either be recognised as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset they may be capitalised as part of the cost of the asset.

The company expects to apply the allowed alternative treatment under AASB 123 and therefore will continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset.

There is no expected impact on either the Company or the consolidated entity in relation to this choice of AIFRS accounting policy as there is no expected change from the current policy under Australian GAAP.

(g) Earnings per share

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity. The basic and diluted earnings per share for the discontinued operations is calculated and disclosed separately.

(h) Financial instruments

Presentation of liabilities and equity

Under AIFRS, the issuer of a financial instrument classifies the instrument, or its component parts, as a financial liability, financial asset or an equity instrument in accordance with the substance of the contractual arrangement on initial recognition and the definitions of a financial liability, financial asset and an equity instrument.

If an entity does not have an unconditional right to avoid the delivering of cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability.

(i) Share issue costs

Under AGAAP, share issue costs, including listing costs are able to be applied against the equity raised within equity and not charged to the profit and loss statement.

Under AIFRS, certain listing and share issue costs which relate to existing shareholder's shares will be charged to the profit and loss statement.

(j) Preference shares

Under AIFRS preference shares are classified as equity if they are non-redeemable and any dividends are discretionary, or they are redeemable but only at the Company's option. Dividends on preference shares classified as equity are recognised as distributions within equity.

Preference shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense. The preference shares were redeemable solely at the option of the Company at any time. Accordingly, under AIFRS these preference shares would have retained the characteristics of equity. All preference shares on issue were bought back during the year and dividends on the preference shares recognised in retained profits. No adjustment was required for the purposes of the AIFRS reconciliation, given the terms and conditions of the preference shares.

(k) Business combinations

Business combinations that occur on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. It is expected that there will be no material impact for the Company. Acquisitions of controlled entities made during the year ended 30 June 2005 are being treated as 'Reverse Acquisitions' under AASB 3 'Business Combinations'. Refer notes to AIFRS reconciliations (note (f)).

(l) Fixed rate rental increases on operating leases

AASB 117 requires that a lessee under an operating lease to recognise lease expense on a straight line basis over the lease tern, unless another systematic basis is more representative of the time pattern of consumption. There is one lease in place at 30 June 2005 subject to fixed rate CPI increases to February 2007. The impact of this transaction is not material and therefore no adjustment has been made in the AIFRS reconciliation.

The following table overleaf sets out the expected adjustments to the statements of financial position of the Company and the consolidated entity as at 30 June 2005. As the company was incorporated on 1 July 2004 there is no opening transitional balance sheet as of this date.

Note 30 Impact of adopting Australian equivalents to International Financial Reporting Standards

continued

		Consolidated		The Company	
	Note	AGAAP 30 June 2005 $	AIFRS 30 June 2005 $	AGAAP 30 June 2005 $	AIFRS 30 June 2005 $
Current assets					
Cash assets		4,318,919	4,318,919	1,431,475	1,431,475
Receivables	(d) (g)	46,533,749	42,076,862	21,219,986	20,898,169
Inventories		36,100,987	36,100,987	–	–
Other financial assets		14,068,509	14,068,509	31,791,500	31,791,500
Current tax assets	(f)	474,626	474,626	474,626	–
Other		680,876	680,876	68,594	68,594
Total current assets		102,177,666	97,720,779	54,986,181	54,189,738
Non-current assets					
Goodwill	(c) (e)	31,114,303	13,502,700	–	–
Other intangible assets	(b)	27,572	–	–	–
Property, plant and equipment		561,536	561,536	–	–
Deferred tax assets	(g)	3,777,463	3,777,463	3,777,463	2,409,431
Total non-current assets		35,480,874	17,841,699	3,777,463	2,409,431
Total assets		137,658,540	115,562,478	58,763,644	56,599,169
Current liabilities					
Payables	(f)	11,458,701	11,458,701	6,815,504	13,337,248
Interest-bearing liabilities		70,393,351	70,393,351	5,703,164	5,703,164
Current tax liabilities		–	–	–	–
Provisions		5,707,347	5,707,347	–	–
Redeemable preference shares		–	–	–	–
Total current liabilities		87,559,398	87,559,398	12,518,668	19,040,412
Non-current liabilities					
Deferred tax liabilities	(f)	4,229,332	4,229,332	4,229,332	–
Provisions		29,064	29,064	–	–
Total non-current liabilities		4,258,396	4,258,396	4,229,332	–
Total liabilities		91,817,794	91,817,794	16,748,000	19,040,412
Net assets		45,840,748	23,744,684	42,015,644	37,558,757
Equity					
Contributed equity	(d) (e)	43,727,265	19,502,077	43,727,265	39,270,378
Retained profits/(Accumulated losses)	(b) (c) (e)	2,113,483	4,243,040	(1,711,621)	(1,711,621)
Total equity		45,840,748	23,744,684	42,015,644	37,558,757

The following table sets out the expected adjustments to the statements of financial performance of the Company and the consolidated entity for the period ending 30 June 2005. As the company was incorporated on 1 July 2004 there is no opening transitional statement of financial performance as of this date.

Note 30 Impact of adopting Australian equivalents to International Financial Reporting Standards

continued

	Note	Consolidated AGAAP 30 June 2005 $	Consolidated AIFRS 30 June 2005 $	The Company AGAAP 30 June 2005 $	The Company AIFRS 30 June 2005 $
Total revenue from ordinary activities		63,638,742	63,638,742	615,656	615,656
Project and construction activities		(18,420,116)	(18,420,116)	–	–
Cost of development property sold		(26,171,256)	(26,171,256)	–	–
Employee costs		(5,779,531)	(5,779,531)	(55,000)	(55,000)
Depreciation and amortisation expenses	(c)	(1,875,197)	(534,000)	–	–
Borrowing costs		(534,459)	(534,459)	(464,392)	(464,392)
Administration costs		(1,807,730)	(1,807,730)	–	–
Fund management fee expenses		(3,864,827)	(3,864,827)	–	–
Provision for intercompany loans		–	–	(1,438,579)	(1,438,579)
Write-off of intangibles under AIFRS	(b)	–	(27,351)	–	–
Reinstate pre-acquisition retained profits of APN Funds Management Limited to account for reverse acquisition under AIFRS	(f)	–	2,002,701	–	–
Other expenses from ordinary activities		(943,294)	(943,294)	(165,522)	(165,522)
Profit/(loss) from ordinary activities before related income tax expense		4,242,332	7,558,879	(1,507,837)	(1,507,837)
Income tax (expense)/benefit relating to ordinary activities	(f)	(1,808,045)	(2,408,855)	117,019	117,019
Net profit/(loss)		2,434,287	5,150,024	(1,390,817)	(1,390,817)
Non-owner transaction changes in equity					
Total revenues, expenses and valuation adjustments recognised directly in equity		–	–	–	–
Total changes in equity from non-owner related transactions		2,434,287	5,150,024	(1,390,817)	(1,390,817)

The following table sets out the expected adjustments to retained profits of the consolidated entity for the period ending 30 June 2005. As the company was incorporated on 1 July 2004 there is no opening transitional statement adjustments to opening retained profits.

Summary of impact on retained earnings at 30 June 2005

	Note reference	Consolidated $	Company $
Retained profits as reported under AGAAP		2,113,483	(1,711,621)
AIFRS adjustments			
Reversal of goodwill amortisation under AIFRS	(c)	1,341,197	–
Write-off of other intangibles under AIFRS	(b)	(27,351)	–
Reinstate pre-acquisition retained profits of APN Funds Management Limited to account for reverse acquisition under AIFRS	(e)	815,495	–
Retained profits as reported under AIFRS		4,243,040	(1,711,621)

Note 30 Impact of adopting Australian equivalents to International Financial Reporting Standards *continued*

Notes to reconciliations

(a) In accordance with AASB 2 "Share based payment", the economic entity will be required to recognise the fair value of options granted to employees as an expense on a time basis over the period from the grant date to the vesting date with a corresponding adjustment to equity. Under AGAAP, share based payments costs are not recognised as an expense. As at balance date the fair value of options granted to employees was not considered to be material.

(b) In accordance with AASB 138 "Intangible Assets", formation costs and trade marks amounting to $27,135 have been expensed for AIFRS purposes.

(c) Under AASB 3 "Business Combinations", goodwill is no longer amortised, rather it is to be assessed annually for potential impairment. Goodwill amortisation of $1,341,197 has been written back for AIFRS purposes.

(d) Under AASB 2 and in light of recent changes to UIG 112: "Consolidation – Special Purpose Entities", the economic entity is required to consolidate the results, financial position and cash flows of Special Purpose Entities.

APN Property Group Limited owns 100% of the equity of APN Property Group Nominees Pty Ltd, the corporate trustee for the APN Property Group Limited executive and employee share based payment plans. Under current AGAAP the parent entity does not control or significantly influence the trusts, as beneficial ownership and control remains with the employees who participate in the share plans, administered by the trustee on their behalf. These are therefore not consolidated under AGAAP.

The following adjustments will be recorded on initial consolidation under AIFRS:

- elimination of the loan receivable of $4,456,887 from APN Property Group Limited executive and employee share based payment plans;
- reduction in share capital of $4,456,887 to reflect the shares held in APN Property Group Limited by the APN Property Group Limited executive and employee share based payment plans.
- the recognition of the results, financial position and cash flows of the trusts. The economic entity has determined there was no impact on the financial result for the 30th June 2005.

(e) In accordance with AASB 3 "Business Combinations" the acquisition by APN Property Group Limited of APN Funds Management Limited and APN Development and Delivery Pty Ltd has been accounted for as a reverse acquisition and the acquirer has been identified as APN Funds Management Limited for the purposes of AIFRS. This results in the elimination of $19,768,301 of equity under AIFRS and the write back of the pre-acquisition retained profits of APN Funds Management Limited of $815,495 which was previously eliminated under AGAAP.

This also involves the reinstatement of current year profits of $2,002,701 before tax, and corresponding adjustment to income tax expense of $600,810. The net profit for the period 1 July 2004 – 10 September 2004 (being acquisition date) of $1,401,891 has been reinstated accordingly to reflect the reverse acquisition under AIFRS.

(f) Under AIFRS accounting for the impact of the tax consolidation system in the separate financial statements of the members of a tax consolidated group is addressed by UIG 1052 Tax Consolidation Accounting. Wholly owned subsidiaries in a tax consolidated group must recognise their own tax amounts directly, and the current liability (asset) and any deferred tax asset relating to tax losses are assumed by the head entity.

Amounts treated under UIG 52 have been amended in the AIFRS reconciliation to reflect the requirements of UIG 1052. The Tax Funding Agreement and Tax Sharing Agreement will be amended as required.

Note 31 Events subsequent to reporting date

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. Refer Note 30.

Since the balance date the directors have declared a dividend of 2 cents per fully paid ordinary share franked at the corporate tax rate of 30 percent, amounting to $2,300,980.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company, in the subsequent financial period.

Directors' declaration

In the opinion of the directors of APN Property Group Limited ("the Company"):

(a) the financial statements and notes, set out on pages 16 to 58, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows for the Period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2005.

Dated at Melbourne this 30th day of September 2005.

Signed in accordance with a resolution of the directors:

Christopher Aylward
Executive Chairman

Clive Appleton
Managing Director

KPMG

Independent audit report to the members of APN Property Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 16 to 59 for both APN Property Group Limited (the "Company") and APN Property Group Limited and its controlled entities (the "consolidated entity"), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of APN Property Group Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and;

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Don Pasquariello

Don Pasquariello
Partner

Melbourne
30 September 2005

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative

Additional Australian Stock Exchange Information

Additional information required by Listing Rule 4.10 of the Australian Stock Exchange and not disclosed elsewhere in this report, is as follows. This information is current as at 8 September 2005.

Substantial Shareholders

Ordinary Shareholder	Number of shares	Percentage of issued capital
Holus Nominees Pty Ltd	49,123,688	42.70
Howard Brenchley	12,618,610	10.97
Melbourne Light Pty Limited	10,000,001	8.69
APN Property Group Nominees Pty Limited	10,000,001	8.69

Distribution of Securities

	Number of holders	Number of shares	Percentage of shares held
1-1000	55	50,848	0.04%
1001-5000	381	1,609,150	1.40%
5001-10000	319	3,101,276	2.70%
10001-100000	500	14,430,192	12.54%
100001 and Over	30	95,857,534	83.32%
Total	1,285	115,049,000	100.00%

There are no security investors holding less than a marketable parcel of 317 securities.

Number of Restricted Securities

As at the date of the Directors' report, there were 71,742,299 shares held in voluntary escrow. Details of the escrow conditions and dates of release are contained in the Directors' report.

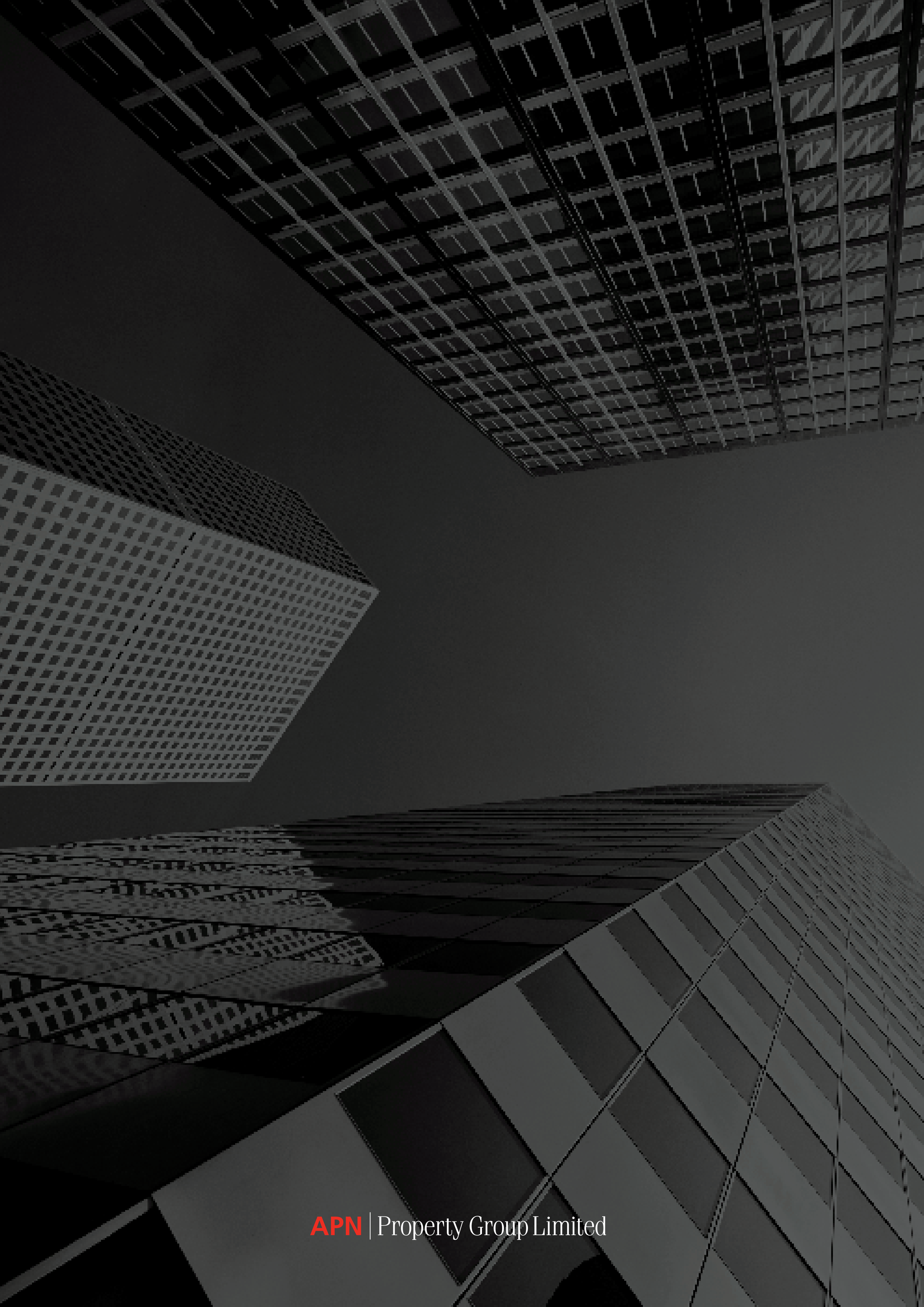
As at the date of the Directors' report, there are 694,000 shares issued to employees that have restrictions attaching. 645,000 shares are restricted for a 2 year period from the date of Listing on the ASX (20 June 2005). 49,000 employee gift shares are restricted for a 3 year period from the date of listing.

Additional Australian Stock Exchange Information

Top 20 Ordinary Shareholders

Name of Shareholder	Number of shares	Percentage of issued capital
Holus Nominees Pty Ltd	49,123,688	42.70
Howard Brenchley	12,618,610	10.97
APN Property Group Nominees Pty Limited	10,000,001	8.69
Melbourne Light Pty Limited	8,268,379	7.19
APN Property Group Employee Share Purchase Plan	2,877,460	2.50
RBC Global Services Australia Nominees Pty Limited	2,209,711	1.92
National Nominees Limited	1,868,000	1.62
ANZ Nominees Limited	1,804,850	1.57
Amsil Pty Limited	1,536,862	1.34
JP Morgan Nominees Australia Limited	945,000	0.82
Health Super Pty Ltd	861,000	0.75
Australian Executor Trustees Limited	686,473	0.60
Michael Doble & Patricia Doble	300,000	0.26
Invia Custodian Pty Limited	300,000	0.26
Mr Brian Hrnjak & Mrs Anne Louise Clacher	255,000	0.22
Perpetual Trustees Consolidated Limited	251,500	0.22
Mrs Kirsten Jane Arthur	250,000	0.22
Mrs Davina Rhyll Stanley	250,000	0.22
Bond Street Custodians Limited	242,000	0.21
Citano Pty Ltd	190,000	0.14
	94,838,534	82.43

DESIGN: COLLIER & ASSOCIATES STRATEGIC DESIGN FOR INVESTORS #11060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