



Our brand of **property** investment

APN | Property Group Limited

PROSPECTUS

for the Offer of 31,000,000 Shares in APN Property Group Limited
ABN 30 109 846 068

Lead Manager and Underwriter
Grange Securities Limited
ABN 12 066 797 760

Grange
Securities

Co-Manager
Tricom Equities Limited
ABN 92 067 161 755

Date: 6 May 2005

Important Information

This Prospectus is dated 6 May 2005 and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. Neither ASIC nor the Australian Stock Exchange Limited (ASX) takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

APN Property Group Limited will apply for admission to the Official List and for the Shares offered by this Prospectus to be listed for quotation by ASX within seven days following the date of this Prospectus. No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

The Offer and this Prospectus do not take into account the investment objectives, financial situation or particular needs of any investor. No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any of the forecasts, prospects or returns contained in this Prospectus. Any forecasts and any prospects and returns contained in this Prospectus are by their nature subject to significant uncertainties and contingencies.

Potential investors should read the Prospectus in its entirety before making an investment decision. In considering whether to invest in the Company, potential investors should carefully consider the assumptions underlying the prospective financial information provided and the risk factors that could affect the performance of the Company in light of their personal circumstances. Prospective investors should seek professional advice from a stockbroker, financial adviser or other professional adviser before deciding whether to invest in the Company.

Restrictions on distribution

This Prospectus does not constitute an offer or invitation in any jurisdiction other than Australia where, or to any person to whom, it would be unlawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. It is the responsibility of any Applicant who is a citizen of a jurisdiction outside of Australia to ensure compliance with all laws of any jurisdiction which are relevant to their Application.

Prospectus availability

This Prospectus is available in electronic form on the Company's website at www.apnpg.com.au and on the Underwriter's website at www.grangesecurities.com.au. This Prospectus is only available to residents in Australia. Persons who access the electronic version of this Prospectus should ensure that they download and read this Prospectus carefully and in its entirety. Any Australian resident who receives this Prospectus electronically will be sent a paper copy of the Prospectus free of charge on request during the Offer Period by telephoning the Underwriter on 1800 634 636.

Applications

An Application Form included in this Prospectus may only be distributed if it is included in, or accompanied by, a complete and unaltered copy of the Prospectus. Each Application Form contains a declaration that the Applicant has personally received the complete and unaltered Prospectus prior to completing the Application Form. Applications under the Offer must be made by completing a paper copy of an Application Form included in the paper copy of this Prospectus, or an Application Form included in this Prospectus downloaded and printed in its entirety from the websites mentioned above. The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received an Application Form together with a full copy of the Prospectus or if it has reason to believe that the Application Form has been altered or tampered with in any way.

Exposure Period

Under the Corporations Act, the Company is not permitted to process Applications during the Exposure Period of seven days after the date of lodgement of this Prospectus with ASIC. ASIC may extend the Exposure Period for up to a further seven days. No preference will be conferred on Applications received during the Exposure Period

Definitions and Glossary

Certain terms and abbreviations used in this Prospectus have defined meanings, which are explained in the Glossary at the back of this Prospectus. The financial amounts in this Prospectus are expressed in Australian dollars unless stated otherwise. References to time are to Australian Eastern Standard Time (AEST) unless stated otherwise.

Privacy

If you apply for Shares you will provide personal information to the Company, the Underwriter or Co-Manager and the Share Registry. The Company and the Share Registry collect, hold and use your personal information in order to assess your Application, meet your needs as a shareholder, provide facilities and services you request and carry out appropriate administration.

The law requires certain information to be obtained in connection with your Application. If you do not provide the information requested, your Application may not be able to be processed.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers, including those listed below, or as otherwise authorised under the Privacy Act:

- the Underwriter in order to assess your Application;
- the Share Registry for ongoing administration of the register; and
- printers and mailing houses for the purposes of preparation and distribution of statements and for handling of mail.

Under the Privacy Act you may request access to your personal information held by, or on behalf of, the Company or the Share Registry. You can request access to your personal information by writing to the Company through the Share Registry as follows:

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

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, the Directors, the Underwriter or any other person in connection with the Offer.

Supplementary Prospectus

1. Important Information

This is a Supplementary Prospectus that should be read in conjunction with the prospectus dated 6 May 2005 (**Original Prospectus**) issued by APN Property Group Limited ABN 30 109 846 068.

This Supplementary Prospectus is dated 20 May 2005. A copy of this Supplementary Prospectus was lodged with the ASIC and ASX on 20 May 2005. No responsibility for the contents of this Supplementary Prospectus is taken by the ASIC or ASX.

This document is important and should be read in its entirety and in conjunction with the Original Prospectus. If you do not understand its contents, you should consult your professional adviser without delay.

2. Supplementary Information

2.1 Dividend policy (page 9)

In order to clarify the Company's dividend policy, the following paragraph replaces the second paragraph of section 2.6 of the Original Prospectus.

Subject to achieving the Directors' forecasts, an interim dividend is expected to be paid in April of the 2006 year and a final dividend is expected to be paid in October of each of the 2005 and 2006 years. Subject to the Corporations Act and applicable accounting standards, the Directors currently intend to maintain a dividend payout ratio of 75% of net profit after tax (before goodwill adjustments and any non-recurring significant items). Investors should note that dividends will be declared at the discretion of the Directors and may only be paid out of the profits of the Company.

2.2 Material assumptions (page 55)

In order to clarify the time lag between the sale of the 380-390 La Trobe Street building and the recognition of fees by APN FM, the following paragraph replaces the second point under the heading "Direct property investments" in section 8.5 of the Original Prospectus.

APN Direct Property Fund to (indirectly) acquire an interest in the 380-390 La Trobe Street building for \$63 million in June 2005 and (indirectly) acquire the Signature Building for \$34.7 million by September 2005, earning an upfront fee of 1% forecast to be recognised during FY06.

2.3 Acquisition of APN DD and APN FM (page 82)

The following information regarding the acquisition of APN DD and APN FM by the Company is provided as part of the appendix to section 8 of the Original Prospectus.

Note 18 – Acquisition/disposal of controlled entities

During the financial period ended 31 December 2004 the Company purchased 100% of the capital on issue in APN DD and APN FM. Details of the acquisitions are as follows:

| | APN DD \$ | APN FM \$ | 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 |

2.4 Incorporation (page 99)

In order to provide further details regarding the incorporation and formation of the Company and clarify the redemption and issue of redeemable preference shares as part of the merger of APN DD and APN FM, the following additional information is provided as part of section 11.1 of the Original Prospectus.

At the time of the merger APN DD was valued at \$6 million and APN FM was valued at \$21 million (plus \$5.1 million attributable to redeemable preference shares – see below). The shareholders in APN DD and APN FM exchanged their ordinary shares for ordinary shares in the Company as summarised by the following table.

| Shares held in: | Pre-merger | | Post-merger |
|---|------------------|--------------------|-----------------------|
| | APN DD | APN FM | APN PG |
| Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust | 4,250 (42.5%) | 467,139 (60.0%) | 15,149,935 (49.1%) |
| Melbourne Light Pty Limited in its capacity as trustee for the Bruno Grollo Family Trust | 4,250 (42.5%) | - | 2,550,000 (8.3%) |
| Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust | 1,500 (15.0%) | 155,715 (20.0%) | 5,100,032 (16.5%) |
| Howard Brenchley in his capacity as trustee for the Brenchley Family Trust | - | 155,715 (20.0%) | 4,200,032 (13.6%) |
| APN Property Group Nominees Pty Limited in its capacity as trustee for the Clive Appleton Share Trust | - | - | 3,084,039 (10.0%) |
| APN Property Group Nominees Pty Limited in its capacity as trustee for APN Property Group Limited Senior Executive Share Plan No. 1 | - | - | 756,348 (2.5%) |

Prior to the merger, APN FM had issued 4,620,000 redeemable A class preference shares and 487,500 redeemable B class preference shares at \$1.00 each to support APN FM's net tangible asset requirement under its Australian financial services licence as follows:

- (a) Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust – 4,620,000 redeemable A class preference shares and 292,500 redeemable B class preference shares;
- (b) Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust – 97,500 redeemable B class preference shares; and
- (c) Howard Brenchley in his capacity as trustee for the Brenchley Family Trust – 97,500 redeemable B class preference shares.

As part of the merger, all of the APN FM redeemable A and B class preference shares were transferred to the Company in exchange for the Company issuing to those shareholders the same number of redeemable A and B class preference shares carrying the same rights and obligations. Subsequently 853,000 of the redeemable A class preference shares held by Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust were redeemed and cancelled at \$1.00 each.

It is proposed that all of the remaining redeemable A and B class preference shares issued by the Company will be redeemed from the proceeds of the Offer. See section 11.4 for details on the redemption of the redeemable preference shares.

2.5 APN DD pre-IPO dividend (page 100)

The following additional information regarding the APN DD pre-IPO dividend is provided as part of section 11.5 of the Original Prospectus.

The dividend was declared by the board of APN DD and debited against retained profits of APN DD on the basis of the retained profits of APN DD and APN DD consolidated entity for the period ended 31 July 2004. The material terms of the dividend declaration were that:

- the dividend is payable on the earlier of APN DD receiving sufficient net proceeds from the sale of the 380 La Trobe Street building or 31 December 2006; and
- the dividend is fully franked and if APN DD has insufficient franking credits to fully frank the dividend when it is paid, APN DD shall pay the necessary franking deficit tax to fully frank the dividend.

On 17 March 2005, the Board varied the terms of payment of the dividend by resolving that the dividend will be payable following the successful listing of the Company on the ASX.

At the time the dividend was declared the accounts for the year ended 30 June 2004 were not audited, and the retained profits were determined based on the accounts prepared by the company's external accountants and adopted by the board of APN DD. These accounts were prepared on the basis of the accounting treatment of projects used in preparing the financial statements for the year ended 30 June 2003 and the profits in relation to projects as they were known at the time.

Subsequently, when the financial statements for APN DD were audited for the 2004 financial year, results differed from those provided in the accounts previously adopted by the board of APN DD. These changes resulted in APN DD (consolidated entity) having accumulated losses as at 30 June 2004 of \$1,431,723 instead of retained profits of \$5,492,249 as per the accounts previously adopted. APN DD (parent entity) had retained profits of \$549,437 as at 30 June 2004 compared with \$6,716,995 as per the accounts previously adopted.

The significant adjustments of APN DD (consolidated entity) are summarised as follows:

- In preparing the 2004 audited financial statements, after consultation with the company's auditors the board of directors of APN DD adopted AASB 1006 Interests in Joint Ventures in respect of the 380-390 La Trobe Street project. The effect of adopting this standard for this project resulted in the deferral of profit of \$4.7 million (before tax). This profit will be recognised as 380-390 La Trobe Street is sold.
- In preparing the 2004 audited financial statements, the board of APN DD obtained an independent valuation of the 380-390 La Trobe Street property. As the building was only approximately 50% let at the time the building was valued, the valuation obtained resulted in the write down of the building by approximately \$0.307 million (before tax).

- The accounts adopted by APN DD at the time had a forecast cost to complete on the 16 Liverpool Street project that would have resulted in the project achieving a break even result. In the period between the adoption of the accounts and the preparation of audited financial statements (approximately seven months), the expected time and cost to complete the project had increased substantially. The result of this was that the anticipated result for the construction of the 16 Liverpool Street project changed from a break even position to a forecast loss of \$4.2 million (before tax). These time delays also resulted in the expected development profit on the project being revised down by \$0.92 million (before tax). The APN DD board decided to recognise these losses in the 2004 financial year.

The Board has received legal advice and based on that advice formed the view that the dividend was properly and validly declared and therefore the dividend liability is payable. However, in view of the subsequent movements in retained profits, the Board will consider further whether the dividend was properly and validly declared and is able to be paid before ultimately paying the dividend liability from the IPO proceeds. In the meantime, the Company will hold the relevant IPO proceeds as a reserve. The dividend liability will only be paid if and when permitted by the Corporations Act and the law generally.

If it is determined that the dividend was not validly declared, by operation of law the dividend will not be payable. The Directors are of the view that the Company and its shareholders will not be prejudiced if the APN DD dividend is not paid.

2.6 APN DD legacy projects – 380-390 La Trobe Street, Melbourne (page 106)

In order to clarify the terms of the leases relating to the 380-390 La Trobe Street building and APN FM's offer to purchase the building, the following additional information is provided as part of section 11.8(c)(i) of the Original Prospectus.

A lease for 13.9% of the building space has been entered into by ANU with Cambridge for a term of 10 years starting from 1 April 2005 subject to a right of early termination in 2010 and with two options of five years each.

ANU has also entered into an agreement to lease with the Commonwealth of Australia (ATO) for 27.6% of the building space for a term of three years starting from 1 August 2005 with three options of four, three and three years.

The preconditions to APN FM's offer to acquire an equitable interest in the relevant parts of the property include a capital raising by APN FM as responsible entity for underlying APN FM funds, due diligence, valuation and approval by APN FM's board. The offer relates to approximately 64% of the office space in and 100% of the car park to the building.

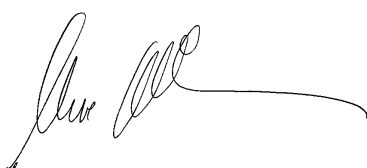
3. General

Words and phrases as defined in the Original Prospectus have a corresponding meaning in this Supplementary Prospectus.

4. Directors' Consent And Authorisation

Each Director of APN Property Group Limited has given and has not, at the date of this Supplementary Prospectus, withdrawn such written consent to the lodgement with the ASIC of this Supplementary Prospectus.

This Supplementary Prospectus is issued by APN Property Group Limited. Its issue is authorised by a resolution of the Directors and is signed by a Director on behalf of all Directors.



Signed for and on behalf of
APN Property Group Limited

Key Information

This Prospectus invites Applicants to apply for a total of 31 million fully paid ordinary shares in APN Property Group Limited (the Company) at an Issue Price of \$1.00 per Share. All of the Shares offered under this Prospectus will rank equally with all Shares currently on issue in the Company, and have the rights summarised in section 11.6.

| Key Offer Statistics | |
|--|---------------------|
| Shares being offered under this Prospectus | 31,000,000 |
| Shares on issue following the Offer, the Employee Gift Offer* and the Buy-back** | 115,049,000 |
| Issue Price (per Share) | \$1.00 |
| Market capitalisation at the Issue Price | \$115,049,000 |
| Forecast earnings per Share, before amortisation (FY 2006) | 8.3 cents per Share |
| Anticipated dividend per Share, fully franked (FY 2006) | 6.2 cents per Share |
| Forecast price to earnings (before amortisation) multiple (FY 2006) | 12.0 times |
| Anticipated dividend yield, fully franked (FY 2006, at Issue Price) | 6.2% |
| * The Company proposes making a separate offer of 49,000 free Shares to Qualifying Employees. This is the Employee Gift Offer. See section 2.12. | |
| ** The Company has agreed to buy back some of the Shares of certain Existing Shareholders. This is the Buy-back. See section 11.3. | |

| Indicative Timetable | |
|---|-------------------------------------|
| Offer opens | 9:00 am (AEST) Monday, 16 May 2005 |
| Adviser Priority Offer closes | 5:00 pm (AEST) Friday, 27 May 2005 |
| Employee Purchase, Broker Firm and General Offers close | 5:00 pm (AEST) Friday, 10 June 2005 |
| Allotment Date | Friday, 17 June 2005 |
| Dispatch of transaction confirmation statements | Monday, 20 June 2005 |
| Commencement of trading of Shares on ASX | Thursday, 23 June 2005 |
| These dates are subject to change and the above table is indicative only. The Company may, with the consent of the Underwriter, vary the dates and times of the Offer (including closing the Offer early or extending the closing dates for the Offer) without notice. Investors are encouraged to submit their Applications as soon as possible after the Offer opens. | |

How to Apply

Applications for Shares under the Offer may only be made in accordance with the instructions set out in section 3.

Corporate Directory

Registered Office

APN Property Group Limited
Level 32
101 Collins Street
Melbourne VIC 3000
Telephone: (03) 9654 7655
www.apnpg.com.au

Directors

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

Lead Manager and Underwriter

Grange Securities Limited
Level 34
360 Collins Street
Melbourne VIC 3000
Telephone: 1800 634 636

Co-Manager

Tricom Equities Limited
Level 10, Exchange House
10 Bridge Street
Sydney NSW 2000
Telephone: (02) 9210 7884

Investigating Accountant

KPMG Transaction Services
(Australia) Pty Limited
161 Collins Street
Melbourne VIC 3000

Auditor

KPMG
161 Collins Street
Melbourne VIC 3000

Legal Advisors to the Offer

Hall & Wilcox
Level 30, Bourke Place
600 Bourke 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 Letter

Dear Investor,

On behalf of the Board, I have great pleasure in inviting you to become a shareholder in APN Property Group Limited (the Company).

The Company operates an integrated property business that specialises in the management of property funds, including both direct property and property securities funds.

Our first fund was launched in August 1998. We currently manage six funds with total assets under management of approximately \$1.7 billion as at 31 March 2005. The Company, through its subsidiary APN Funds Management Limited (APN FM), has focused on creating and managing innovative funds for retail investors who predominantly invest through investment platforms such as master funds and wrap accounts. This has culminated in APN FM managing the largest retail property securities fund in Australia, the APN Property for Income Fund.



We are now embarking on a new era. During the next twelve months the Company is proposing that APN FM launch a number of new property funds. These will not only strengthen our position within the retail market, but will provide a base to launch into the wholesale and listed property trust sectors which represent the largest components of the property funds management industry.

We also operate APN Development and Delivery, a property development and construction business, which is able to support several of our managed funds as well as providing an additional source of revenue.

Listing on the ASX is designed to support the Company's growth strategy. Under this Prospectus, the Company is proposing to issue 31 million Shares at a price of \$1.00 each to employees of the Company, financial advisers and the general public.

The Company has the opportunity to establish itself as one of Australia's leading property funds managers. Our innovative funds and specialist investment strategies already set us apart from our peers in the property funds management industry. It is expected that the significant experience of our Board and management team and the diversity of our product platform will enable us to participate in the expected growth in the sector over the next decade.

This Prospectus contains detailed information about the Company. I encourage you to read it carefully before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a shareholder in APN Property Group Limited.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Chris Aylward'. The signature is fluid and cursive, with a long horizontal line extending from the end.

Chris Aylward EXECUTIVE CHAIRMAN

Our brand of **property** investment

innovation + integration

- The APN Property Group is an integrated property business.
- Our core business is a specialist property funds manager, APN Funds Management Limited (APN FM).
- We also have a property development and construction business, APN Development and Delivery Pty Limited (APN DD), which supports several of our managed funds and provides an additional source of revenue.
- The integration of these two businesses enables a unique combination of expertise to work together to maximise property investment opportunities and returns for our clients.



experience + expertise

- The Board and executive team have considerable experience in property funds management and property development.
- APN FM has a seven year track record of growth in assets under management.
- We have an extensive operations infrastructure that provides accounting, client service, sales and marketing and administration support for our property funds.

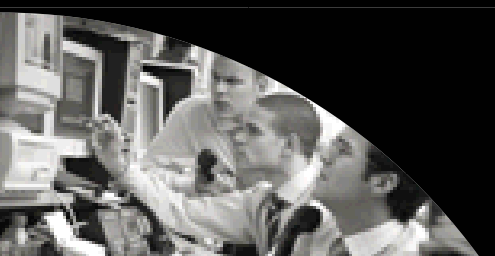
— APN at a Glance

different + disciplined

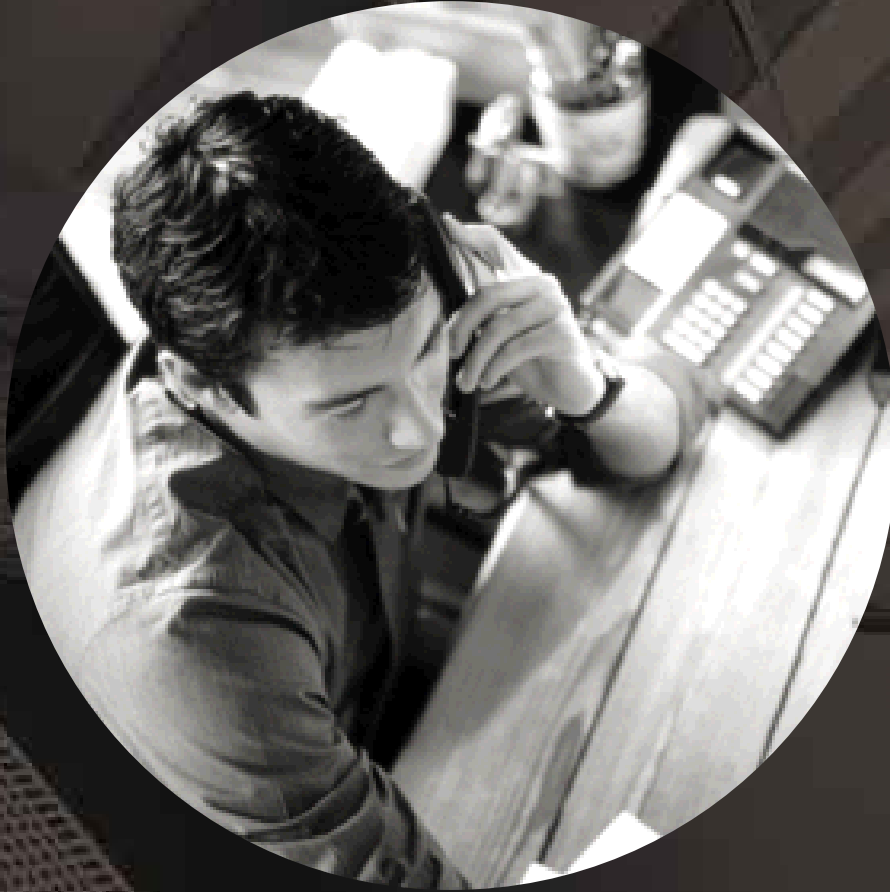
- We have a unique business model based on creating numerous differentiated property funds for a wide range of clients and advisers in the investment platform (eg. master funds and wrap accounts), retail, wholesale and institutional markets.
- Our investment philosophy remains focused on creating distinct investment strategies for each fund we manage.
- Our disciplined approach is aimed at extracting the best risk/return outcome for clients.

proven + progressive

- APN FM currently manages six property-related funds with total assets under management of approximately \$1.7 billion as at 31 March 2005.
- These funds are managed for more than 9,000 direct clients and for nearly 400 independent financial adviser dealer groups around Australia.
- The success of our progressive business model has been reflected by a growth in assets under management of approximately \$569 million (51%) in the 12 months to 31 March 2005.



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SECTION 2

Details of the Offer

SECTION 2

Details of the Offer

2.1 Description of the Offer

This Prospectus invites Applicants to apply for a total of 31 million Shares in APN Property Group Limited at an issue price of \$1.00 per Share.

The gross proceeds of the Offer (\$31 million) will be paid to the Company on completion of the Offer. The intended use of the proceeds of the Offer by the Company is discussed below in section 2.3. All of the Shares offered under this Prospectus will, on the date of issue, rank equally with each other and with all Shares then on issue in the Company and have the rights summarised in section 11.6.

Under a separate offer, a total of 49,000 free Shares will be offered to Qualifying Employees (see section 2.12 for further details of the Employee Gift Offer).

2.2 Key investment features

The Company operates an integrated property business. The Company's core business is a specialist property funds manager, APN FM. It is forecast that for the 30 June 2006 financial year the Company will derive approximately 89% of its EBITDA from fees earned by APN FM from managing property funds. The Company also has a property development and delivery division, APN DD, which is able to support several of the managed funds and provides an additional source of revenue.

Since its first fund was launched in August 1998, APN FM has grown its assets under management to approximately \$1.7 billion as at 31 March 2005. This represents an average annual increase in assets under management of 111%.

Reflecting this significant increase in assets under management, APN FM was recently ranked as having the 13th highest net increase in retail funds under management across the entire Australian funds management industry (source: ASSIRT Market Share Report as at 31 December 2004). This is despite APN FM being a specialist property funds manager and not managing other asset classes such as equity or fixed interest.

APN FM manages six property funds, including direct property funds and property securities funds. The flagship fund has been the APN Property for Income Fund, with almost \$1.4 billion in assets under management as at 31 March 2005. The success of this fund has been predicated on creating a differentiated and income-focused fund, providing consistent investment performance and the establishment of a broad retail distribution base, primarily through investment platforms.

From this foundation, the Company is planning to launch a number of new funds designed to meet the needs of its target investor segments. These proposed funds include:

- **APN Property for Income Fund No.2** – Leveraging the success of the flagship APN Property for Income Fund, this fund will also invest in a diversified portfolio of income generating property securities. However, the fund will have a broader mandate to facilitate investment in Australian property securities with exposure to international assets, an area that has seen an increase in demand.
- **APN Development Fund No.1** – This fund is the Company's first discrete development fund, offering wholesale investors the opportunity to leverage the Company's expertise in property development. The Company intends to co-invest in this fund and APN FM, as responsible entity, will receive management fees and potentially performance fees. The fund may also offer the direct property funds that APN FM manages a prospective pipeline of suitable properties for investment should those properties provide the appropriate returns for the respective funds.
- **APN Diversified Property Fund** – This fund is intended to be a no-fee umbrella fund that will offer retail investors access to a range of the Company's specialist property funds. The fund is designed to be attractive to investment platforms and will enable investors and their advisers to access a diversified portfolio of domestic direct property and domestic and international property securities.
- **APN Direct Property Fund** – This fund will primarily invest in a diversified portfolio of Australian direct property assets. This fund has an excellent strategic fit with APN DD, with APN DD potentially able to provide the fund with quality investment opportunities.
- **European retail property trust** – The Company is considering the establishment of a European retail property trust. This proposed trust would be the Company's first ASX-listed fund and would be designed as a vehicle for Australian and international institutional and retail investors to participate in the securitisation of the European retail property sector.

Refer to section 8 for a more detailed discussion of financial performance and prospects. See section 10 for a discussion on the risks associated with this investment.

2.3 Use of proceeds

The intended use of the funds raised by the Offer is to:

| Purpose | \$m | Section Reference |
|---|------|--------------------|
| Return capital to certain Existing Shareholders | 16.0 | s.11.3 |
| Fund the payment of a previously declared dividend to former shareholders in APN DD | 5.4 | s.11.5 |
| Retire debt and redeem all preference shares on issue | 5.2 | ss.11.4, 11.8(e) |
| Fund loans to employees as part of the Employee Purchase Offer | 0.6 | ss.2.9(b), 11.9(b) |
| Fund the expenses of the Offer | 1.6 | s.11.16 |
| Fund a retention guarantee and provide additional working capital | 2.2 | s.8.4 |
| Total | 31.0 | |

Other objectives of the Offer and ASX listing include to:

- provide the Company with greater access to equity capital markets;
- improve capital flexibility;
- more efficiently fund future growth opportunities; and
- broaden the Company's shareholder base thereby creating a liquid market for Shares.

The Company will, following the Offer, have sufficient working capital to carry out its stated objectives.

2.4 Capital structure

The table below sets out the expected ownership of Shares immediately prior to the Offer and following completion of the Offer, the Employee Gift Offer and the Buy-back.

| | Before the Offer | | On completion of the Offer, Employee Gift Offer and Buy-back | |
|---|------------------|---------|--|---------|
| | number | % | number | % |
| Shares held by Existing Shareholders associated with Directors ¹ | 89,279,161 | 89.28% | 73,279,161 | 63.70% |
| Shares held on behalf of certain employees as part of the Employee Purchase Plan ² | 2,452,460 | 2.45% | 3,097,460 | 2.69% |
| Shares held by other Existing Shareholders | 8,268,379 | 8.27% | 8,268,379 | 7.19% |
| Shares held by Qualifying Employees as part of the Employee Gift Plan ³ | – | – | 49,000 | 0.04% |
| Shares held by new non-employee Shareholders | – | – | 30,355,000 | 26.38% |
| Total Shares | 100,000,000 | 100.00% | 115,049,000 | 100.00% |

¹ Before the Offer (after the Offer), Existing Shareholders associated with Directors hold (will hold) Shares as follows:

- (a) 49,123,688 (49,123,688) Shares held by Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust;
- (b) 16,536,862 (1,536,862) Shares held by Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust;
- (c) 13,618,610 (12,618,610) Shares held by Howard Brenchley as trustee for the Brenchley Family Trust; and
- (d) 10,000,001 (10,000,001) Shares held by APN Property Group Nominees Pty Limited in its capacity as trustee for the Clive Appleton Share Trust.

² Shares held by APN Property Group Nominees Pty Limited as trustee for the APN Property Group Share Purchase Plan – see section 11.9(b).

³ Shares held by APN Property Group Nominees Pty Limited as trustee for the APN Property Group Share Gift Plan – see section 11.9(a).

In addition, as at the date of this Prospectus the following redeemable preference shares are on issue:

- (a) 3,767,000 redeemable A class preference shares; and
- (b) 487,500 redeemable B class preference shares.

The rights attaching to redeemable preference shares are summarised in section 11.6(e).

All redeemable preference shares on issue will be redeemed from the proceeds of the Offer and cancelled (see section 11.4).

2.5 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants for Shares under the Offer.

2.6 Dividend policy

It is the current intention of the Directors to make half-yearly dividend payments.

Subject to sufficient profits being available, working capital requirements and the level of borrowings, an interim dividend is expected to be paid in April of each year and a final dividend is expected to be paid in October of each year. Subject to the Corporations Act and applicable accounting standards, the Directors currently intend to maintain a payout ratio of 75% of net profit after tax (before goodwill adjustments and any non-recurring significant items). Investors should note that dividends will be declared at the discretion of the Directors and may only be paid out of the profits of the Company.

The Directors intend for the Company to pay a fully franked final dividend of 2 cents per Share in October 2005. The Directors anticipate paying fully franked dividends for the 2006 financial year totalling 6.2 cents per Share.

The Company has adopted the rules of a dividend reinvestment plan (DRP). At the date of this Prospectus the DRP has not been activated. See section 11.10 for a summary of the rules of the DRP.

2.7 Underwriting

The Underwriter, Grange Securities Limited, has agreed to underwrite the Offer on the terms of the Underwriting Agreement. A summary of the material terms of the Underwriting Agreement is set out in section 11.8(a). The Company will pay the Underwriter's fees and expenses from the proceeds of the Offer on the terms of the Underwriting Agreement. The Company will be reimbursed part of the Underwriter's fee by Existing Shareholders participating in the Buy-back. The Underwriter has reserved the right to procure that any person sub-underwrite any portion of the Offer. The Underwriting Agreement may be terminated in the circumstances described in section 11.8(a)(iv).

2.8 ASX Listing

The Company will apply for admission to the Official List and for the Shares offered by this Prospectus and for other Shares on issue in the Company to (subject to the ASX Listing Rules) be listed for quotation by ASX within 7 days of the date of this Prospectus. The ASX code of the Company is anticipated to be "APD".

The fact that ASX may admit the Company to the Official List is not to be taken in any way as an indication of the merits of the Company or of the Shares offered by the Prospectus. Quotation, if granted, of the Shares offered by this Prospectus will commence as soon as practicable after the issue of transaction confirmation statements to successful Applicants.

If ASX does not grant permission for the official quotation of the Shares within three months after the date of issue of this Prospectus (or any longer period permitted by law), none of the Shares offered by this Prospectus will be allotted or issued unless ASIC grants the Company an exemption permitting the allotment or issue.

If no allotment or issue is made, all money paid on Application for the Shares will be refunded without interest within the time required under the Corporations Act.

2.9 Offer Structure

The Shares being issued under the Offer have been notionally allocated between the Adviser Priority Offer, the Employee Purchase Offer and the Broker Firm Offer. In the event that there is a shortfall from these allocations, there may be Shares available for issue to Applications received through the General Offer.

In addition to, and in conjunction with the Offer, the Company proposes to make the Employee Gift Offer of 49,000 Shares (see section 11.9(a)).

The Underwriter and the Company will determine the allocation of Shares between the Adviser Priority Offer, the Employee Purchase Offer, the Broker Firm Offer and, if required, the General Offer. All Shares offered under the Offer are subject to the disclosure in this Prospectus and will, on the date of issue, rank equally with each other and with all Shares then on issue in the Company.

(a) Adviser Priority Offer

Shares will be offered to certain eligible financial advisers who are significant supporters of the APN Property Group.

(b) Employee Purchase Offer

Shares will be offered to certain eligible employees of the APN Property Group under the terms of the APN Property Group Share Purchase Plan. This constitutes the Employee Purchase Offer. It is anticipated that 645,000 Shares will be offered to employees as part of the Employee Purchase Offer. Participating employees may borrow from the Company the funds to subscribe for Shares as part of the Employee Purchase Offer on an interest free, limited recourse basis.

The terms of the Employee Purchase Plan are summarised in section 11.9(b).

(c) Broker Firm Offer

The Broker Firm Offer is only open to Australian resident retail investors who have received a firm allocation of Shares from their Broker.

(d) General Offer

Otherwise, investors may apply for the Shares under the General Offer. The General Offer is open to all investors, subject to the restrictions on distribution and foreign investors noted elsewhere in the Prospectus.

2.10 Allocation Policy

It is proposed that the allocation policy of the Company and the Underwriter in respect of the Offer will be as follows:

(a) Adviser Priority Offer allocations

Applicants under the Adviser Priority Offer will be advised by the Company or the Underwriter as to their allocation of Shares. Any Application that is received by the Underwriter after the Adviser Priority Offer Closing Date will be treated as an Application under the General Offer. Eligible Applicants are, therefore, encouraged to submit their Application Forms as soon as possible after the Offer opens.

(b) Employee Purchase Offer allocations

Entitlement to, and eligibility for, Shares as part of the Employee Purchase Offer is at the discretion of the Company.

(c) Broker Firm Offer and General Offer allocations

Applications under the Broker Firm Offer and General Offer will be allocated Shares at the discretion of the Underwriter and will be subject to the terms agreed by the Underwriter. Applications may be scaled back or rejected if there is excess demand.

2.11 Voluntary escrow arrangements

Existing Shareholders controlled by or holding Shares on behalf of Chris Aylward, Clive Appleton and Howard Brenchley have agreed with the Company to enter into voluntary escrow arrangements in respect of some or all of their Shares until the release of the 30 June 2006 financial results.

A summary of the terms of the voluntary escrow arrangements is provided in section 11.21.

2.12 Employee Gift Offer

In addition to, and in conjunction with, the Offer, it is proposed that each Qualifying Employee as at the date of the issue of this Prospectus will be offered 1,000 Shares as part of the APN Property Group Employee Gift Plan. This is the Employee Gift Offer.

A Qualifying Employee who wishes to take up the Employee Gift Offer must complete and return his or her personalised application form for the Employee Gift Offer (Employee Gift Offer Application Form) in accordance with the instructions, and by no later than the date specified, on that form.

As at the date of this Prospectus, the Company has 49 Qualifying Employees. If all such Qualifying Employees accept all of the Employee Gift Shares to which they are entitled, 49,000 Employee Gift Shares will be issued. These Employee Gift Shares are in addition to the 31,000,000 Shares offered by this Prospectus.

2.13 CHESS and issuer sponsored holdings

The Company will apply to participate in the Clearing House Electronic Subregister System (CHESS), in accordance with the ASX Listing Rules and the ASTC Settlement Rules. The Company will operate an issuer sponsored subregister through the Share Registry. The CHESS subregister and the issuer sponsored subregister will together make up the Company's register of Shares.

The Company will not issue certificates to investors but, as soon as practicable after allocation, investors will be issued a transaction confirmation statement which sets out the number of Shares allocated to them pursuant to this Prospectus. The transaction confirmation statements will also set out each investor's unique Holder Identification Number (HIN) (in the case of a holding on the CHESS subregister) or Securityholder Reference Number (SRN) (in the case of a holding on an issuer sponsored subregister).

Investors will be provided with periodic Holding Statements showing any changes in their holdings of Shares. Investors may request a Holding Statement at any time (although an administration fee may be charged for additional statements).

2.14 Foreign investors

No action has been taken to register or qualify the Shares or the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia.

The Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. It is the responsibility of any Applicant who is a citizen or resident of a jurisdiction outside of Australia to ensure compliance with all laws of any jurisdiction which are relevant to their Application.

2.15 Discretion regarding the Offer

The Company may at any time decide to withdraw the Offer, in which case all Application Money will be returned to Applicants as soon as practicable.

2.16 Taxation

The taxation consequences of any investment in Shares will depend on your particular circumstances. You should make your own enquires concerning the taxation consequences on investment in the Company.

2.17 Enquiries

If you require assistance to complete the Application Form or require additional copies of this Prospectus, you should contact the Underwriter or the Co-Manager (contact details are provided in the Corporate Directory).

This Prospectus provides information for potential investors in APN Property Group Limited and should be read in its entirety. Prospective investors should seek professional advice from a stockbroker, financial adviser or other professional adviser before deciding whether to invest in the Company.

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SECTION 3

How to Apply

SECTION 3

How to Apply

An Application Form is included at the back of this Prospectus. If you wish to invest, you must complete an Application Form in accordance with the instructions below. Applications may only be made on an Application Form attached to or accompanying this Prospectus. If you require a further copy of the Prospectus (including an Application Form) or have questions about making an Application for Shares, you should contact the Underwriter or Co-Manager (Monday to Friday 9.00am to 5.00pm – AEST). Contact details of the Underwriter and Co-Manager can be found in the Corporate Directory.

If you require further clarification of any matter, including whether the Shares are an appropriate investment for you, you should contact your stockbroker, financial adviser or other professional adviser.

3.1 Where and when to return the Application Form

Completed Application Forms must be accompanied by a cheque in Australian dollars for the amount of the Application Money. The cheque must be crossed 'Not Negotiable' and must not be post dated.

Applicants are encouraged to lodge their Applications as soon as possible after the Offer opens. The Company may, with the consent of the Underwriter, close the Offer early or extend the Closing Date for the Offer without notice.

You should return your Application Form and Application Money as follows:

(a) Adviser Priority Offer applications

If you are eligible to apply for Shares under the Adviser Priority Offer then you must return your completed Application Form and cheque for the Application Money to the Underwriter:

Grange Securities Limited
GPO Box 83
Sydney NSW 2001

The cheque should be made payable to "APN Property Group IPO Share Offer".

Applications under the Adviser Priority Offer must be received by 5:00 pm on Friday, 27 May 2005 (the Adviser Priority Offer Closing Date). Applications received after this time will be treated as applying for Shares under the General Offer application process.

(b) Employee Purchase Offer applications

If you are eligible to apply for Shares under the Employee Purchase Offer then you must return your completed Application Form (and cheque if applicable) together with any other documentation required by the Employee Purchase Plan rules to the Company. Any cheques should be made payable to "APN Property Group IPO Share Offer".

Applications under the Employee Purchase Offer must be received by 5:00 pm on Friday, 10 June 2005 (the Closing Date).

(c) Broker Firm Offer applications

If you have received a Broker Firm allocation of Shares, you must return your completed Application Form and cheque for the Application Money to your Broker. Your Broker will provide you with instructions.

Broker firm applications must be received by 5:00 pm on Friday, 10 June 2005 (the Closing Date).

(d) General Offer applications

Otherwise, you should return your completed Application Form and cheque for the application money to the Share Registry:

ASX Perpetual Registrars Limited

Level 4, 333 Collins Street

Melbourne VIC 3000

The cheque should be made payable to "APN Property Group IPO Share Offer".

General Offer applications must be received by 5:00 pm on Friday, 10 June 2005 (the Closing Date). Note the Company does not guarantee that there will be any Shares available for issue to Applicants under the General Offer.

3.2 Minimum and maximum investment

The minimum investment is \$2,000, being 2000 Shares, and the maximum investment is \$50,000, being 50,000 Shares. The Company may, with the consent of the Underwriter, vary these limits at its discretion.

3.3 Allotment

The Company will not process any Application until the expiration of the Exposure Period. Shares applied for under this Prospectus will be allocated on the basis set out in section 2.10 as soon as practicable after the Closing Date. Application Money will be held in a trust account until Shares are issued. Interest on Application Money will be for the benefit of the Company and will be retained by the Company, irrespective of whether Shares are allotted or issued.

3.4 Application is binding

By lodging a completed Application Form you are making an offer to acquire the Shares. That offer can be accepted by entry of your name in the Register as the holder of Shares, without prior notice to you. An offer cannot be withdrawn or varied unless determined by the Underwriter in its absolute discretion.

3.5 Refunds of Application Money

If any Application is rejected, in whole or in part, the Application Money will be refunded without interest. Where the number of Shares issued is less than the number applied for by the Applicant, the surplus Application Money will be refunded by cheque as soon as practicable. Should the Offer not proceed, Application Money will be refunded in full by cheque as soon as practicable after the Closing Date.

3.6 No cooling off period

Investors should note that there will not be a cooling off period in relation to Applications during which an investor can withdraw their investment. Consequently, by submitting an Application Form and Application Money, an Application will be deemed to have been made for the number of Shares for which payment is made. Once an Application has been made, it cannot be withdrawn or varied unless determined by the Underwriter in its absolute discretion.

3.7 Discretion to accept and reject Application Forms

The Company may, at its discretion, treat any Application Form as valid notwithstanding that it does not strictly comply with the requirements for the completion of the Application Form set out in this Prospectus. The Company may, but is not obliged to, rectify any errors in, or omissions from, any Application Form, including inserting or correcting details and filling in any blanks. An Application Form may be accepted whether or not it is received by the Closing Date. Applications will only be accepted following the clearance of cheque proceeds (as determined by the Company at its discretion).

The Company reserves the right to accept in full, accept in part only or decline any Application. Applicants must not assume that the Shares they apply for, or any number of Shares, will be issued to them in response to their Application. Before dealing in any Shares, Applicants must satisfy themselves as to their actual holding of Shares.

Our brand of **property** investment



SECTION 4

Business Profile

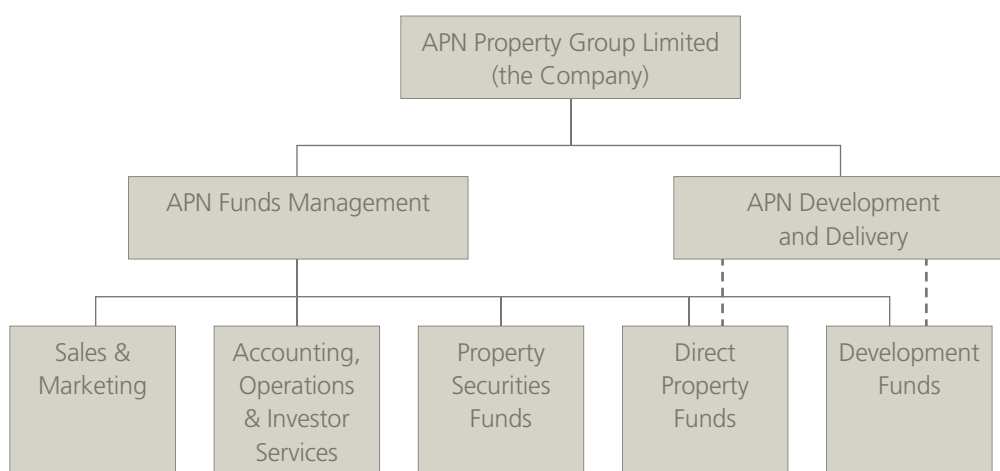
SECTION 4

Business Profile

4.1 Overview

The APN Property Group (consisting of the Company and its wholly owned subsidiaries) carries on an integrated property business that specialises in property funds management with the capability to enhance investor returns through its property development and delivery operations. Testimony to the success of the Group's approach to the property funds management industry is the growth in its assets under management, which has risen to approximately \$1.7 billion as at 31 March 2005.

The following chart summarises the current structure of the Group:



4.2 General strategy and earnings streams

The APN Property Group previously operated as two separate (although related) businesses – APN Funds Management Limited (APN FM), a property funds manager, and APN Development and Delivery Pty Limited (APN DD) (previously known as Australian Property Network), a property development and construction business. The merger of APN FM and APN DD under the Company in September 2004 marked the realignment of the Group's strategy to focus on its funds management activities.

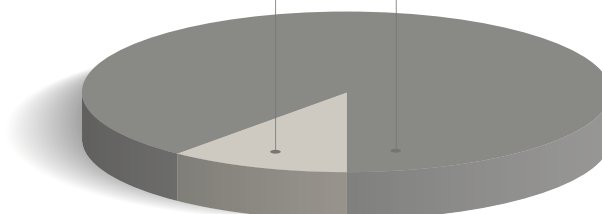
As part of this realignment, the focus of the Group's development and delivery division will be on project management, advisory and construction services. Other than when the Company co-invests in funds such as the APN Development Fund No. 1, any future development and construction risk associated with projects undertaken by APN DD will be borne by parties external to the Company (which may include funds managed by APN FM).

The combination of the funds management and development and delivery businesses results in an integrated property group that can extract value from the property investment, management and development cycle. The Company has the opportunity to earn revenue from:

- (a) APN FM generating fees from managing property funds. Such fees may include one or more of the following for each fund managed by APN FM:
 - responsible entity fees;
 - investment management fees;
 - property acquisition fees;
 - performance entitlement fees;
 - property management fees; and
 - fund administration fees.
- (b) APN DD generating income from project management, construction and advisory services.
- (c) The Company generating returns from investment in APN FM property funds.

For the year ending 30 June 2006, the forecast split between sources of earnings (EBITDA) is as follows:

- Funds management 89%
- Development and delivery 11%



4.3 Funds management division

APN FM, the Company's funds management business, commenced operations in 1998. APN FM holds Australian Financial Services Licence No. 237500 issued by ASIC.

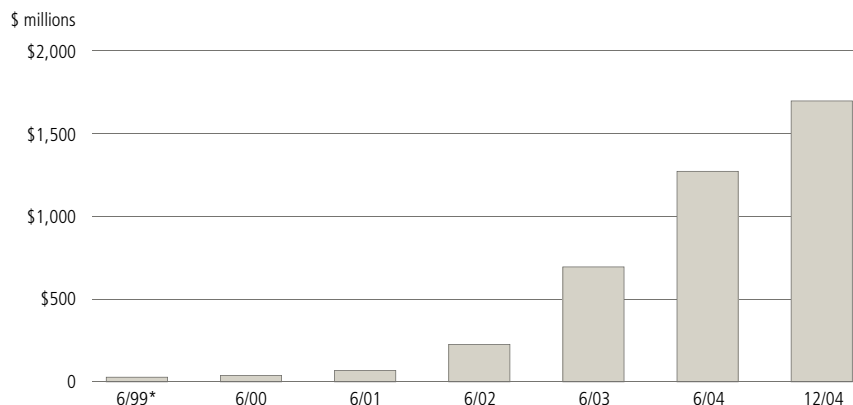
APN FM's approach to property funds management is to create innovative and differentiated property funds for a wide range of clients and advisers in the investment platform (eg. master funds and wrap accounts), direct retail, institutional and wholesale markets.

Directors and senior executives of the Company and APN FM have broad experience in property and funds management, including experience gained from the establishment and management of numerous listed and unlisted property funds (see section 7 for a summary of the Board's and senior management's experience). APN FM also has an extensive operations infrastructure that includes sales and marketing, investor services, registry, accounting and administration.

APN FM currently manages six funds with total assets under management as at 31 March 2005 of approximately \$1.7 billion (see section 5 for a profile of the APN FM funds). These funds are managed for more than 9,000 direct clients (not including clients investing through investment platforms) and for nearly 400 independent adviser dealer groups. In addition, the Company estimates that APN FM manages the funds of well over 100,000 indirect clients through over 40 investment platforms.

(a) Growth in assets under management

The success of the APN FM approach to property funds management is reflected by continued growth in assets under management as illustrated by the following chart:



*The first APN FM fund was launched in August 1998.

APN FM's expertise is widely recognised in the property funds management industry, as evidenced by awards such as:

- InvestorWeb Research Property Securities Fund Manager of the Year for 2002, 2003 and 2004;
- Macquarie Skilled Manager of the Year 2003-2004; and
- Monitor Money Skilled Manager of the Year 2002-2003.

(b) Funds management growth strategies

The Company's growth strategy for APN FM is to build a suite of products and services that in aggregate meet the needs of its target investor segments, which are:

- **Retail** – direct investment by retail investors.
- **Investment platforms** – investment by retail investors predominantly through master funds and wrap accounts.
- **Institutional** – investment by funds managed by financial institutions, such as property securities and equity funds.
- **Wholesale** – investment by wholesale superannuation and industry funds.

Growth in assets under management, a key determinant of future earnings, is planned to be driven by continued expansion of existing products and by the launch of a number of new funds. The following table summarises funds currently operated by APN FM and those planned for launch in the near future.

| Property Fund Types | Current Funds | Planned Funds |
|---------------------------|--|---|
| Listed Property Trusts | APN Regional Property Fund (BSX listed) | European retail property trust (proposed ASX listed) |
| Wholesale Property Funds | APN Development Fund No. 1 | |
| Property Securities Funds | APN Property for Income Fund APN International Property for Income Fund | APN Property for Income Fund No. 2 |
| Unlisted Property Funds | APN National Storage Property Trust APN Property Plus Portfolio APN Retirement Property Fund | APN Diversified Property Fund APN Direct Property Fund |

APN FM's current and planned funds are profiled in section 5.

A significant proportion of investment in APN FM's existing funds is from retail clients investing under advice from financial planners. Investment is predominantly through investment platforms such as master funds and wrap accounts. Investment platforms have become an increasingly important point of access to managed funds for retail investors. APN FM intends to continue to focus on increasing its market share of funds invested through investment platforms by creating a new suite of unlisted property and property securities funds.

In addition, APN FM has established the APN Development Fund No. 1, which is targeted at the wholesale investor market where the Group is currently not represented. The Company is also considering establishing a listed European retail property trust – which would be APN FM's first ASX listed property trust.

(c) Key success variables

The ability of the Company to successfully execute its strategies for APN FM is dependent upon a number of factors, including:

(i) Performance

The relative and absolute performance of the funds that APN FM manages is a key variable driving investor demand for APN FM products.

APN FM has demonstrated its ability to achieve or exceed its forecasts for its funds and deliver consistent returns to investors in its funds since it was established. It is noteworthy that the key members of the APN FM team that have delivered these past results are either key stakeholders in the Company or have been offered Shares as part of the Employee Purchase Offer.

(ii) Product

The ability to grow existing funds or to create new funds is a major variable impacting growth in APN FM's assets under management.

The key existing funds that APN FM manages, together with those that APN FM plans to launch, are or will be capable of growing as they are either open ended or continuous issuer funds. In particular, the planned APN Property for Income Fund No. 2 (see section 5.1(b)), a property securities fund, will be capable of meeting investor demand through issuing new units. Given its investment criteria, the fund will have few constraints for finding suitable property securities investments as is required by new funds inflow. Open-ended funds, such as the APN National Storage Property Trust, are similarly able to issue new units to investors or borrow funds as the fund acquires additional properties.

Additionally, APN FM is well progressed in its plans to launch new fund products. For example, the recently launched APN Development Fund No. 1 and the proposed APN Direct Property Fund are two new products that expand the APN FM investment offering.

An important part of managing growth of assets under management is the ability of APN FM to selectively acquire appropriate property securities and property investments. This requires a disciplined approach to investment, with APN FM conducting the necessary due diligence enquiries and reward for risk analysis to best ensure investment quality. APN FM has the depth of experience and a proven track record in managing these processes (refer to section 7 for a profile of Board and senior management).

(iii) Distribution

The methods through which investors are exposed to, and can access, funds managed by APN FM impacts on its ability to source additional funds.

A key target market for APN FM funds is investment platforms. The growth of investment platforms in the domestic market has substantially increased their importance as a source of funds inflow for fund managers. APN FM has successfully built a strong presence with investment platforms, in particular, through the APN Property for Income Fund which is listed on over 40 investment platforms. APN FM is planning to leverage on the success of the APN Property for Income Fund by launching the APN Property for Income Fund No. 2, the APN Diversified Property Fund and the APN Direct Property Fund. As continuous issuer funds, these funds will be suited to the investment requirements of investment platforms.

APN FM also has a network of relationships with financial advisers and other retail financial intermediaries. The importance of these relationships in sourcing investors for unlisted property funds is evidenced by the success of the APN National Storage Property Trust and the APN Regional Property Fund, both of which were funded through this network. These funds are both open-ended and APN FM has plans for their future growth.

The wholesale and institutional markets for property have not historically been a market on which APN FM has focused. The APN Development Fund No. 1 and the proposed European retail trust are intended to remedy this gap in APN FM's product offering and distribution channels.

4.4 Development and delivery division

APN DD (previously known as Australian Property Network Pty Limited) has been operating since 1996 and has specialised in property development, delivery (incorporating construction) and advisory. Development and delivery projects successfully undertaken include:

- **The Age Print Centre, Tullamarine, Melbourne** – client representative for The Age in relation to a new major printing facility;
- **399 Lonsdale Street, Melbourne** – project initiator, builder and financier of a 10,000 square metre conversion from office use to education facility in partnership with Taylors Schools;
- **Victoria Parade, Melbourne** – development adviser and builder for Melbourne Pathology of a new office and laboratory facility;
- **Peninsula Private Hospital, Frankston** – head constructor and joint developer of a new 140 bed, full service hospital;
- **Coles/Target shopping centre, Mornington** – head contractor and developer for a new shopping centre;
- **Royal Melbourne Golf Club** – design and development advisory services to restructure the procurement of the new clubhouse;
- **Clarendon Street, Melbourne** – head contractor for the relocation of Joe White Maltings' head office to new premises and adviser regarding the disposal of an inner-Melbourne industrial site; and
- **Temple Court, Collins Street, Melbourne** – builder and financier of the residential conversion comprising 219 apartments.

A key objective of the merger of APN DD with APN FM under the Company in September 2004 was to realign APN DD to focus on project management, advisory and construction services. The intention of this shift in strategy was to create a business that can enhance the ability of the Group to extract value from its assets under management across the property investment cycle. An important part of this strategy is that, following the completion of the APN DD legacy projects (discussed below), APN DD will not be directly exposed to any development and construction risk associated with its activities (although there may be exposure to development and construction risk through co-investment by the Company in funds such as the APN Development Fund No. 1 – see section 5.3(a)).

The Group has specialist expertise in management of all aspects of the property development process. Going forward, APN DD's development and delivery roles are likely to include negotiating the terms of appointment and then subsequent management of consultants, sub-contractors and, where appropriate, building and construction organisations. Within Victoria, APN DD may also undertake construction services directly, with APN DD's primary role being to support the management of the project delivery process.

It is anticipated that the ability of APN DD to deliver property to be acquired by APN FM funds will become a key objective of and competitive advantage for the Group. For instance, it is proposed that APN FM, as responsible entity of underlying APN FM funds, will acquire (direct or indirect) interests in the Signature Building and 380-390 La Trobe Street, Melbourne.

(a) APN DD Legacy projects

There are four APN DD projects that commenced prior to the formation of the Group that remain on foot and that are expected to be completed during the Forecast Period. The risks pertaining to these projects have been mitigated as described in the following summaries.

(i) 380-390 La Trobe Street, Melbourne, Victoria

This project involved a subsidiary of the Company entering into a development agreement with the Australian National University to develop and construct an office tower of approximately 22,200 square metres at 380-390 La Trobe Street, Melbourne. The tower was completed in December 2003.

The building was approximately 50% pre-leased to AWB Services Limited (AWB Services) for a 12 year lease term to December 2015, with the carpark leased to Ezi Park Pty Limited (Ezi Park) from completion of the building.

Since completion of the building, a lease has been entered into with Cambridge Integrated Services (Cambridge) and a heads of agreement to lease has been entered into with the Australian Taxation Office, which will increase the leased portion of the building to approximately 92%.

The building has been accounted for as a joint venture with ANU in which the Group has an approximate interest of 50%. The Group's interest has been brought to account at a property valuation of \$82 million (supported by an independent valuation).

APN FM, as responsible entity for underlying APN FM funds, has made a conditional offer to directly or indirectly acquire an equitable interest in the portion of the property represented by leases to AWB Services, Ezi Park and Cambridge, for \$63 million. One of the conditions of the offer is that APN FM should have first right to purchase equitable interests in the remaining portion of the property. The offer is subject to approval by ANU. Should the acquisition proceed, the Group will have no bank debt in relation to the project.

The forecasts assume the remaining portion of the property is not sold in the Forecast Period and the Group's portion of net rental income is brought to account.

Refer to section 11.8(c)(i) for further details of this project.

(ii) 120 Harbour Esplanade, Docklands, Melbourne, Victoria (Signature Building)

This project involved a subsidiary of the Company entering into an agreement with RIA Docklands Limited in connection with the Signature Building development. The Signature Building is a new office tower of approximately 8,500 square metres located in the Docklands, Melbourne. The Company's role included finding a tenant and procuring a purchaser. Construction risk resides with the vendor, Victoria Point Docklands Limited and the Group has no direct equity in the project.

The building was 100% pre-leased to Bendigo Bank Limited for a ten year term commencing on completion of the building, which is anticipated to be in August 2005.

APN FM, as responsible entity for the APN Direct Property Fund, has exercised its right to purchase the property for \$34.7 million (inclusive of a development management fee payable to APN DD).

The final payment for this project is contingent upon project completion, thereby mitigating APN FM's financial exposure.

Refer to section 11.8(c)(ii) for further details of this project.

(iii) 16 Liverpool Street, Melbourne, Victoria

This project involved a subsidiary of the Company entering into a development agreement with Collins Street Collaborative Pty Limited to develop and construct an 83 unit residential tower (plus 2 retail shops) at 16 Liverpool Street, Melbourne.

Practical completion of the building is expected to occur by June 2005. Construction risk resides with the subsidiary and APN DD and the cost to complete has been fully provided for in the accounts.

As at the date of this Prospectus, one retail shop and 68 units have been sold under conventional contracts and 15 units, one retail shop and 28 car parks remain unsold. Renounceable contracts are in place in relation to the unsold units, mitigating the risk associated with the sale of the remaining units. Completion of the renounceable contracts would, however, result in receipt of less revenue than that currently budgeted during the Forecast Period. For the Forecast Period it is assumed that these renounceable contracts are not exercised and any properties not sold at market value are refinanced by the owner, Collins Street Collaborative, with APN DD receiving its development management fee.

Refer to section 11.8(c)(iii) for further details of this project.

(iv) 518-526 Dandenong Road, North Caulfield, Victoria (Emmy Monash)

This project involved a subsidiary of the Company entering into a design and construction contract with Mutual Help Limited to construct a residential home for the aged at 518-526 Dandenong Road, North Caulfield, Melbourne.

Practical completion of the project is anticipated to occur by October 2005.

Construction risk resides with the Company but is mitigated by insurances and sub-contracts. The client is paying construction invoices monthly.

Refer to section 11.8(c)(iv) for further details of this project.

(b) Development and delivery strategy

The Company proposes that APN DD will leverage its expertise in the management and delivery of development projects to enable the Company to earn revenue across the property investment cycle. APN DD has the capacity to assist in the construction and development of property both for APN FM and third parties. Importantly, APN DD will only participate in projects where development and construction risk is borne by parties external to the Group. An important element in the execution of this strategy is the launch of the APN Development Fund No. 1.

Under the terms of the APN Development Fund No. 1, APN DD is able to provide its services to assist APN FM in achieving the fund's objectives. Accordingly, arrangements have been or will be entered into in respect of the three projects summarised below. Notably, in the event that the projects are not approved for investment by the fund, the projects are able to be exited at no further cost.

A summary of the proposed APN Development Fund No. 1 projects follows:

(i) Yatala, 67 Stanmore Road, Yatala, Queensland

This project involves a 63 hectare industrial land sub-division to potentially be developed by APN FM as responsible entity of the APN Development Fund No. 1 in conjunction with two third parties. The interest in the project is currently held by a wholly owned subsidiary of the Company.

See section 11.8(d)(i) for further details.

(ii) Coolum, Quanda Road, Coolum, Queensland

This project involves a 77 hectare industrial land sub-division to potentially be developed by APN FM as responsible entity of the APN Development Fund No. 1 in conjunction with two third parties. The interest in the project is currently held by a wholly owned subsidiary of the Company.

See section 11.8(d)(ii) for further details.

(iii) Riverview Lifestyle Estate, 160 Fullerton Cove Road, Fullerton Cove, NSW

This proposed project involves the development of a 169 lot retirement village to potentially be developed by APN FM as responsible entity of the APN Development Fund No. 1 in conjunction with two third parties. It is proposed that the interest in this project will be held by a wholly owned subsidiary of the Company.

See section 11.8(d)(iii) for further details.

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SECTION 5

Overview of Current & Planned Funds

SECTION 5

Overview of Current & Planned Funds

The following is a summary of APN FM's current and planned funds.

5.1 Property securities funds

(a) APN Property for Income Fund

| | |
|--|--|
| Type of fund | Domestic property securities fund (Continuous issuer fund) |
| Size as at 31 March 2005 | \$1.355 billion |
| 12 month increase in assets under management | \$463 million (to 31 March 2005) |
| Responsible entity fees | Up to 0.95% of NAV |

The APN Property for Income Fund was established in August 1998 and is currently the flagship fund for APN FM. As at 31 March 2005 the fund had nearly \$1.4 billion in assets under management, making it the largest retail property securities fund in Australia.

The investment objective of the fund is to maximise investor income by investing in property securities that comply with a strict set of investment criteria. Greater investment diversification is achieved by the ability to have up to 20% of the fund invested in unlisted property funds. The fund is managed using a disciplined modelling process that aims to maximise income, minimise volatility and at least maintain the real value of capital.

For the twelve months ending 31 March 2005, the fund delivered a total return to unitholders of 18.7% (this figure assumes re-investment of distributions).

The total size of the fund has increased significantly (\$463 million or 52%) in the twelve months to 31 March 2005, due to significant funds inflow and appreciation in the value of the fund's underlying investments. Notably, the fund has a five year compound return of 17.3% per annum (this figure assumes reinvestment of distributions).

New investment into this fund will be significantly reduced over time to protect the value of unitholders' investments following the substantial increase in the size of the fund. Once launched, the APN Property for Income Fund No. 2 will become the primary APN FM property securities fund accepting new investment.

(b) APN Property for Income Fund No. 2

| | |
|--------------------------|--|
| Type of fund | Domestic property securities fund (Continuous issuer fund) |
| Size as at 31 March 2005 | Fund anticipated to be launched in May 2005 |
| Responsible entity fees | Up to 0.95% of NAV |

The APN Property for Income Fund No. 2 is planned to be launched as part of APN FM's new suite of direct property and property securities funds. The fund will primarily invest in a diversified portfolio of Australian property securities. This fund is modelled on the APN Property for Income Fund, and is proposed to be the primary retail property securities fund offer from APN FM. This fund is differentiated from the APN Property for Income Fund by having a broader investment mandate to facilitate limited investment in Australian property securities that have exposure to international property assets.

The fund will be a continuous issuer fund and will be primarily targeted towards financial advisers through investment platforms. It is anticipated that most investment into the fund will be made through investment platforms either directly or by investment through the APN Diversified Property Fund (see section 5.4(d)).

(c) APN International Property for Income Fund

| | |
|--|--|
| Type of fund | Global property securities fund (Continuous issuer fund) |
| Size as at 31 March 2005 | \$8 million |
| 12 month increase in assets under management | \$8 million (to 31 March 2005) |
| Responsible entity fees | Up to 0.6% of NAV |

The APN International Property for Income Fund was launched in August 2004 and as at 31 March 2005 had \$8 million in assets under management.

The fund is modelled on the domestically focused APN Property for Income Fund, but with a strategy to invest in global property securities.

The investment objective of the fund is to maximise investor income by investing in global property securities that comply with a strict set of investment criteria. Greater diversification is achieved by the ability to have up to 20% of the fund invested in unlisted property funds. The fund's initial investment is in the Fiduciary International Property Income Fund, a fund with similar investment criteria, managed by Franklin Templeton Investments Australia Limited.

For the eight months ending 31 March 2005, the fund delivered a total return to unitholders of 15.2% (this figure assumes reinvestment of distributions).

(d) Target markets for property securities funds

APN FM's key target market for property securities funds is the financial adviser sector that principally directs retail client investments through investment platforms. Historically, almost 80% of funds inflow into the APN FM's property securities funds has come from investment platforms. In addition to being a significant source of funds inflow, an important advantage of investment platforms is the channelling of retail investor funds through single unit holdings at the investment platform level, thereby lowering APN FM's cost of administration.

Continuous issuer funds such as the APN FM property securities funds allow the fund manager to consistently increase assets under management by permitting new investments to be made on an ongoing basis. As investors can generally have their investment redeemed at any time, there is also the risk that assets under management, and revenue derived from the management of these funds, can fall if withdrawals are made from the funds.

5.2 Listed property trusts

(a) APN Regional Property Fund

| | |
|--|---|
| Type of fund | Sector specific listed property trust (Listed on BSX) |
| Size as at 31 March 2005 | \$65 million |
| 12 month increase in assets under management | \$65 million (to 31 March 2005) |
| Responsible entity fees | Up to 1% of GAV and a 5% property acquisition fee |

The APN Regional Property Fund is a fund invested in a portfolio of retail and office properties located in regional New South Wales. The fund has a borrowing facility which currently represents approximately 60% of total assets held in the fund.

APN FM assumed management of the fund in September 2004. The fund is now listed on the Bendigo Stock Exchange (BSX).

Properties held in the fund are leased to various tenants such as Coles Myer Limited (including Coles Supermarket, Kmart and Bi-Lo), Go-Lo and lawyers Sparke Helmore. The average lease expiry for properties held in the fund as at the date of the PDS (September 2004) was 9.8 years.

APN FM is in the process of growing the fund's portfolio with the construction of a new office tower in Newcastle, New South Wales which is 94% pre-leased to the State Government of New South Wales (expiry 2014) and KPMG (expiry 2015).

For the five months ending 31 March 2005, the fund delivered an annualised income return of 8.4% based on the initial issue price. Since commencement of the fund, the fund's income distribution returns have been consistent with its PDS forecasts.

It is proposed that the fund will continue to grow by acquiring and developing property located in regional Australia that offers the potential for income and capital growth. As the fund grows, the Company will consider listing the fund on the ASX.

(b) European retail property trust

The Company is considering the establishment of a European retail property trust, which it is proposed will (subject to the ASX Listing Rules) be listed on the ASX. The fund will be designed to be a sector specific listed property trust investing in retail property in Europe.

The primary target market for the fund will be domestic and global institutional investors complimented with a retail investor component.

(c) Target market for listed property trusts

It is proposed that the key target market for any ASX listed property trust (such as the proposed European retail trust) would generally be Australian and international institutional investors managing property securities or general equities funds, as well as Australian retail investors. The target market for a fund listed on the BSX such as the APN Regional Property Fund is financial advisers and direct retail clients.

As listed property trusts do not have a redemption facility available to investors, they potentially provide more consistent responsible entity fees. In addition, as these funds can potentially grow by various forms of capital raising to fund acquisitions, there exists the potential to increase APN FM's responsible entity fee revenues.

5.3 Wholesale property funds

(a) APN Development Fund No. 1

| | |
|--------------------------|--|
| Type of fund | Wholesale development fund (Closed end fund) |
| Size as at 31 March 2005 | Fund established. Initial capital raising of \$110 million completed in May 2005 |
| Responsible entity fees | Base fee of 1.25% per annum of invested capital (minimum \$0.4 million per annum) plus a performance fee of one-third of the internal rate of return (IRR) achieved over 14% during the life of the fund |

APN FM has recently established the APN Development Fund No. 1. The fund has raised \$110 million in equity commitments.

The fund has a mandate to undertake property developments over a seven year period covering all property types throughout Australia. The fund is targeted at wholesale investors and represents APN FM's first offering to the wholesale market.

APN FM will participate in the performance of developments undertaken by the fund through a performance fee structure, under which APN FM will receive one-third of the IRR achieved over 14%. This fee will be paid at the conclusion of the fund in 2012.

The Company intends to co-invest \$5 million over the life of the fund.

An important aspect of the management of the fund will be APN FM's ability to access the expertise associated with the APN Property Group's development and delivery division, as described in section 4.4.

(b) Target market for wholesale property funds

It is proposed that the target market for wholesale property funds such as the APN Development Fund No.1 will be wholesale investors, in particular superannuation and industry funds.

5.4 Unlisted property funds

(a) APN National Storage Property Trust

| | |
|--|---|
| Type of fund | Unlisted direct property fund (Open-ended non-continuous issuer fund) |
| Size as at 31 March 2005 | \$164 million |
| 12 month increase in assets under management | \$27 million (to 31 March 2005) |
| Responsible entity fees | Up to 0.4% of GAV and a 5% property acquisition fee |

The APN National Storage Property Trust is invested in a portfolio of 24 self-storage properties located in Victoria, South Australia and Queensland. The fund has a borrowing facility that currently represents approximately 50% of total assets held in the fund.

All properties are leased to National Storage, currently Australia's second-largest self-storage operator, with leases expiring in 2019.

The fund's initial equity capital raising of \$62.5 million undertaken in 2003 closed oversubscribed, with APN FM, through its distribution network, raising the equity in just over five weeks. A second successful equity raising of approximately \$13 million was also oversubscribed and completed in August 2004.

For the twelve months ending 31 March 2005, the fund delivered an income return of 9.15% based on the initial issue price. Since the commencement of the fund, the fund has achieved its PDS forecasts.

APN FM will continue to assess opportunities to expand the fund where it believes it is in the best interests of unitholders.

(b) APN Property Plus Portfolio

| | |
|--|--|
| Type of fund | Unlisted direct property fund (Open-ended non continuous issuer fund) |
| Size as at 31 March 2005 | \$62 million |
| 12 month increase in assets under management | \$3 million (to 31 March 2005) |
| Responsible entity fees | Up to 1% of GAV and a 5% property acquisition fee |

The APN Property Plus Portfolio is an open-ended trust that commenced in September 2002. The original PDS for the fund provides that if ASX listing is not achieved by June 2007, unitholders will be consulted regarding the future strategy for the fund.

The principal objective of the fund is to maximise unitholder value through investment primarily in retail properties with strong lease covenants and secure income streams that have the potential for capital growth.

The assets of the fund are a geographically diversified portfolio of 19 Woolworths petrol outlets. Woolworths is the major tenant of the portfolio (accounting for over 94% of rental income). The Woolworths leases have various terms with the earliest expiry date in 2016. The fund has a borrowing facility that currently represents approximately 55% of total assets held in the fund.

For the twelve months ending 31 March 2005, the fund delivered an income return of 8.7% based on the initial issue price. Since the commencement of the fund, the fund has achieved its PDS forecasts. New opportunities to expand the fund and improve unitholder returns are continually being assessed.

(c) APN Retirement Properties Fund

| | |
|--|--|
| Type of fund | Direct property fund (Closed-end fund) |
| Size as at 31 March 2005 | \$34 million |
| 12 month increase in assets under management | \$2 million (to 31 March 2005) |
| Responsible entity fees | 0.475% of NAV |

The APN Retirement Properties Fund is a closed-end, fixed term fund that commenced in June 1999 and is scheduled to conclude between calendar years 2008 and 2010. The fund is invested in five modern Melbourne retirement villages, managed by Prime Life Corporation. Prime Life is one of the largest Australian listed companies specialising in the development and ongoing management of retirement villages. The fund has a borrowing facility that currently represents approximately 28% of total assets held in the fund.

Prime Life operates the villages on behalf of the fund, and pays the fund an annual fee (by advance monthly instalments). The objective of the fund is to provide investors with a high monthly income distribution that maintains its real value for the term of the investment and has a low level of volatility.

For the twelve months ending March 2005, the fund delivered an income return of 11% based on the initial issue price. Since the commencement of the fund, the fund has generally performed in line with its prospectus forecasts.

(d) APN Diversified Property Fund

| | |
|--------------------------|---|
| Type of fund | Diversified unlisted property fund (Continuous issuer fund) |
| Size as at December 2004 | Fund anticipated to be launched in May 2005 |
| Responsible entity fees | Nil (this fund will invest in other APN FM funds in respect of which APN FM will earn fees) |

The planned APN Diversified Property Fund will form part of a launch of the new suite of APN FM property and property securities funds. Investments made into the fund will be subsequently reinvested into one of four specialist property funds managed by APN FM, thereby providing diversification for investors. It is proposed that the specialist funds will be the APN Property for Income Fund No. 2, the APN Property for Income Fund, the APN International Property for Income Fund and the APN Direct Property Fund.

There will be no responsible entity fee charged out of the fund, as APN FM will receive fees through the subsequent investment in the above specialist funds.

The fund will be a continuous issuer fund and will be targeted towards financial advisers and retail investors principally through investment platforms.

(e) APN Direct Property Fund

| | |
|--------------------------|--|
| Type of fund | Direct unlisted property fund (Continuous issuer fund) |
| Size as at 31 March 2005 | Fund anticipated to be launched in May 2005 |
| Responsible entity fees | Up to 0.95% of GAV, plus 1% acquisition fee |

The APN Direct Property Fund is also planned to be launched as part of APN FM's new suite of property and property securities funds. The fund will primarily invest in a diversified portfolio of Australian direct property assets. It is anticipated that the first of these investments will be interests in the Signature Building and 380-390 La Trobe Street, Melbourne, Victoria (refer to section 4.4(a) for a discussion of these property assets).

The fund will be a continuous issuer fund and will be targeted towards financial advisers and retail investors through investment platforms. Investment into the fund will be made via these investment platforms either directly or by investment from the APN Diversified Fund. The fund may also attract advisers and clients who may otherwise invest in property syndicates, due to the fund offering both direct property investment and a redemption facility.

(f) Target market for unlisted property funds

The key target market for non-continuous issuer unlisted property funds is the financial adviser and direct retail client sector. These funds are likely to appeal to advisers and retail investors who traditionally recommend or acquire securities in unlisted property funds or syndicates, and who do not require redemption facilities but seek a defined exit mechanism or period for their investment.

The proposed continuous issuer unlisted property funds will be primarily targeted at the investment platforms. The investment guidelines of these funds have been structured to enable the funds to issue units continuously. The funds will generally have the ability to meet redemption requirements by having a significant portion of the fund portfolio invested in liquid assets.

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SECTION 6

Industry Overview

SECTION 6

Industry Overview

The Australian managed funds industry is currently the fourth largest in the world, comprising a total of \$814 billion of assets under management as at 31 December 2004. This represents a fourfold increase in assets under management since June 1990.

The Reserve Bank of Australia is forecasting managed fund assets to increase to \$2.35 trillion by 2015, an annual compound increase of more than 10%.

One of the significant drivers of this increase in managed funds has been the introduction in July 1992 of the Superannuation Guarantee, which has delivered “non-discretionary” or “enforced” savings to the Australian workforce. Superannuation fund assets totalled over \$500 billion as at December 2004.

The growth in Australian “non-discretionary”, as well as “discretionary”, savings has resulted in the growth of the wealth management industry. This has resulted in expansion in the number and size of players in the following sectors:

- funds management;
- investment platforms (such as master funds and wrap accounts);
- banking;
- life insurance;
- industry superannuation funds;
- stockbroking; and
- financial planning.

The growth and maturation of the funds management industry has also seen greater diversity offered to the consumer, from the traditional bank and life company base to the more recent industry superannuation funds and investment platform providers. Consistent with this diversity has been the growth in more specialist, “boutique” fund managers, which is reflected in the table below.

ASSIRT Market Share Report
Retail Marketing (RFUM) Summary by Manager as at 31 December 2004

| Fund Manager | Rank | Net funds flow for year to 31/12/2004 (\$ million) |
|---|------|--|
| Platinum Asset Management | 1 | 1,952.97 |
| AXA Group | 2 | 1,784.36 |
| AMP | 3 | 1,747.35 |
| National/MLC Group | 4 | 1,579.42 |
| St. George Group | 5 | 1,188.14 |
| ING/ANZ Group | 6 | 994.68 |
| PM Capital Limited | 7 | 965.69 |
| BT/Westpac Group | 8 | 863.09 |
| Challenger Financial Services Group | 9 | 789.75 |
| Skandia | 10 | 742.76 |
| Citigroup/Citicorp | 11 | 670.08 |
| Macquarie Bank Group | 12 | 433.12 |
| APN Funds Management Ltd | 13 | 419.40* |
| Sandhurst Trustees Ltd | 14 | 382.90 |
| State Super Financial Services Ltd | 15 | 370.08 |
| LM Investment Management Ltd | 16 | 312.14 |
| Australian Unity | 17 | 287.58 |
| Vanguard Investments | 18 | 268.42 |
| Deutsche Asset Management Australia Ltd | 19 | 249.57 |
| Centro Properties Group | 20 | 242.86 |
| Total | | 16,244.36 |

* This excludes net retail funds inflow received into the APN Regional Property Fund and the APN National Storage Property Trust.

Source: Standard & Poor's Information Services (Australia) Pty Limited

Even though APN FM is a specialist property funds manager and does not manage other asset classes such as equities or fixed interest, it has ranked 13th for net retail funds inflow for the year to December 2004. This survey covers the Australian retail funds management industry and represents a very strong result for APN FM as a specialist property funds manager.

As part of the growth of the overall managed funds industry, the property funds management industry has experienced strong growth. According to Property Investment Research, funds under management are estimated to be \$210 billion (inclusive of cross-investment) as at late 2004, which includes listed property trusts, wholesale property funds, property securities funds, mortgage funds and unlisted property funds. The following table reflects the relative exposure to those fund types:

| Property Fund Type | Size by Funds under Management (\$ billion) |
|---------------------------|--|
| Listed property trusts | 104 |
| Wholesale property funds | 42 |
| Property securities funds | 25 |
| Mortgage funds | 24 |
| Unlisted property funds | 15 |
| Total | 210 |

Source: Property Investment Research

Research carried out by Property Investment Research indicates that growth in property funds under management has increased at a rate of 20% per annum since 2000. This growth partially reflects the move towards property investment following the stock market downturn in 1999/2000, and partly a longer term phenomenon of an aging population brought about by the “baby boomer” generation approaching retirement age.

As “baby boomers” retire they are expected to move from being capital accumulators to having to draw down both income and capital to fund their retirement lifestyle. To avoid drawing on capital in order to fund everyday expenses, retirees are expected to seek yielding investment assets such as property.

There has been worldwide growth in global listed property funds, with many analysts predicting accelerating growth over the next five years.

In Australia, the four main property investment sectors (excluding mortgage funds) are:

- listed property trusts (which includes stapled securities);
- unlisted wholesale property funds;
- property securities funds; and
- unlisted property trusts and syndicates.

Each of these sectors are profiled below.

6.1 | Listed property trusts

With total assets in excess of \$100 billion as at late 2004, the listed property trust sector is the largest of the property funds management sectors (source: Property Investment Research). The listed property trust sector is dominated by the Westfield Group following the merger of Westfield Holdings, Westfield Trust and Westfield America Trust in 2004.

Total assets of listed property trusts: \$103.8 billion

| Fund Manager | 2004 Ranking | 2003 Ranking | Total Assets (\$ million) | Percentage of the Total LPT Funds |
|------------------------------------|--------------|--------------|---------------------------|-----------------------------------|
| Westfield Group | 1 | 1 | 32,076.2 | 30.9% |
| Macquarie Bank Limited | 2 | 5 | 8,358.6 | 8.1% |
| Lend Lease Corporation Limited | 3 | 2 | 8,205.8 | 7.9% |
| Stockland Trust Management Limited | 4 | 4 | 7,213.0 | 7.0% |
| Colonial First State Group | 5 | 3 | 6,430.4 | 6.2% |
| DB RREEF Funds Management Limited | 6 | 6 | 5,029.0 | 4.8% |
| Centro Properties Group | 7 | 9 | 4,530.0 | 4.4% |
| Investa Properties Limited | 8 | 11 | 4,459.4 | 4.3% |
| Multiplex Capital | 9 | – | 4,091.0 | 3.9% |
| Macquarie Goodman Funds Mgmt | 10 | 10 | 4,087.5 | 3.9% |
| Total | | | \$84,480.9 | 81.4% |

Source: Property Investment Research

Consolidation, with a trend to larger internally managed vehicles, has been one of the key themes in this sector. However, APN FM believes there will be increasing demand for smaller, more specialised listed property trusts.

Another theme in the sector is the increasing investment in offshore assets. APN FM understands that offshore assets are estimated to comprise approximately 30% of all assets in the listed property trust sector. This has grown substantially in the last decade.

The scarcity of appropriate assets available for acquisition within Australia by listed property trusts has favoured the growth of offshore assets. It is anticipated that this trend will continue.

6.2 Unlisted wholesale property funds

The unlisted wholesale property fund sector is a long established and competitive sector. Many of the top 10 managers in this sector also manage (or have managed) substantial portfolios of listed property trusts. AMP, Colonial First State, Lend Lease, ING, Valad and DB RREEF are included in this category. Most unlisted wholesale fund managers are major financial institutions.

The unlisted wholesale property fund sector, like the listed property trust sector, has undergone merger and acquisition activity over the last few years. Consolidations in recent years include:

- the acquisition of Colonial First State by Commonwealth Bank of Australia;
- the merger of the AXA and Deutsche Bank property businesses; and
- the merger of the ING funds management operation with that of ANZ to create the ING Group.

Total assets of unlisted wholesale property funds: \$30.3 billion

| Fund Manager | 2004 Ranking | 2003 Ranking | Total Assets (\$ million) | Percentage of the Total UWFs |
|----------------------------------|--------------|--------------|---------------------------|------------------------------|
| AMP Capital Investors | 1 | 3 | 7,597.0 | 25.1% |
| Colonial First State Group | 2 | 1 | 6,120.5 | 20.2% |
| QIC Real Estate Funds Pty Ltd | 3 | 2 | 5,000.0 | 16.5% |
| Lend Lease Corporation | 4 | 5 | 2,624.2 | 8.7% |
| ISPT Pty Limited | 5 | 4 | 2,585.4 | 8.5% |
| DB RREEF Funds Management | 6 | 6 | 1,381.0 | 4.6% |
| ING Group | 7 | 8 | 997.0 | 3.3% |
| HSBC Asset Management Australia | 8 | – | 621.5 | 2.0% |
| Valad Commercial Management | 9 | 14 | 420.5 | 1.4% |
| National Mutual Funds Management | 10 | – | 384.5 | 1.3% |
| Total | | | \$27,731.6 | 91.5% |

Source: Property Investment Research

6.3 Property securities funds

The property securities fund sector (unlisted wholesale and retail managed funds that invest in listed property trusts and unlisted wholesale and retail funds) comprises total assets of some \$24.9 billion and is dominated by major institutions.

This sector is typified by less concentration than other parts of the market. Colonial First State, with \$2.8 billion in funds under management, represents around 11.4% of the sector. The 10th largest manager (Barclays Global) has around 3.5% of the market.

APN FM, with \$1.17 billion in funds under management as at late 2004, was eighth largest in the sector with 4.7% of the property securities fund market (source: Property Investment Research).

Total assets of property securities: \$24.9 billion

| Fund Manager | 2004 Ranking | 2003 Ranking | Total Assets (\$ million) | Percentage of the Total Property Securities |
|---|--------------|--------------|---------------------------|---|
| Colonial First State Group | 1 | 2 | 2,837.2 | 11.4% |
| Lend Lease Corporation Limited | 2 | 1 | 2,700.0 | 10.8% |
| AMP Capital Investors Limited | 3 | 5 | 2,145.0 | 8.6% |
| BT Westpac Group | 4 | 4 | 2,086.9 | 8.4% |
| Deutsche Asset Management (Australia) Limited | 5 | 3 | 2,032.9 | 8.2% |
| Vanguard Investments Australia Ltd | 6 | 7 | 1,376.4 | 5.5% |
| Citigroup Asset Management Australia | 7 | 15 | 1,237.6 | 5.0% |
| APN Funds Management Limited | 8 | 12 | 1,174.1 | 4.7% |
| UBS Global Asset Management (Australia) Ltd | 9 | 13 | 968.8 | 3.9% |
| Barclays Global Investors Australia Ltd | 10 | 9 | 867.0 | 3.5% |
| Total | | | \$17,425.9 | 70.0% |

Source: Property Investment Research

6.4 Unlisted property trusts and syndicates

Unlisted property trusts and syndicates have grown considerably over the last few years as private investors and their advisers have sought a means to obtain the benefits of direct property exposure. Centro Properties Group (Centro), with \$2.8 billion of the \$14.6 billion invested, dominates the sector. Otherwise, this sector is more open to smaller domestic property houses than the listed property trust sector.

APN FM manages approximately \$250 million in unlisted property trusts and syndicates. This represents approximately 1.7% of the total unlisted property trusts and syndicates market.

Total assets of direct property syndicates: \$14.6 billion

| Fund Manager | 2004 Ranking | 2003 Ranking | Total Assets (\$ million) | Percentage of the Total Direct Property Syndicates |
|-------------------------------------|--------------|--------------|---------------------------|--|
| Centro Properties Group | 1 | 1 | 2,816.0 | 19.3% |
| Multiplex Capital* | 2 | 26 | 1,061.0 | 7.3% |
| Macquarie Bank Limited | 3 | 3 | 730.9 | 5.0% |
| SAITeysMcMahon Group | 4 | 5 | 709.0 | 4.9% |
| Australian Unity Group | 5 | 2 | 609.2 | 4.2% |
| Investa Properties Limited | 6 | 4 | 598.3 | 4.1% |
| Cromwell Corporation Limited | 7 | 8 | 528.1 | 3.6% |
| BT Westpac Group | 8 | 7 | 512.4 | 3.5% |
| Becton Investment Management** | 9 | 27 | 466.8 | 3.2% |
| Challenger Financial Services Group | 10 | 6 | 404.7 | 2.8% |
| Total | | | \$8,436.4 | 57.8% |

*Acquisition of Acumen Capital Limited.

** Acquisition of Glenmont Properties Limited.

Source: Property Investment Research

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SECTION 7

Board and Senior Management

SECTION 7

Board and Senior Management

7.1 Board

As at the date of this Prospectus, the Board comprises four directors. It is the Company's intention to appoint at least one independent, non-executive director following the listing of the Company on the ASX should a suitably qualified candidate or candidates become available.



Chris Aylward
Executive Chairman

Chris is the Executive Chairman of the Company.

Chris has been involved in the Australian property and construction industry for over 30 years. Prior to jointly establishing Australian Property Network in 1996, Chris was the Managing Director of Grocon Pty Limited. During his time at Grocon Chris had overall responsibility for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over \$3 billion, including Governor Phillip and Governor Macquarie Towers in Sydney and 120 Collins Street and the World Congress Centre in Melbourne.

In his role as Executive Chairman, Chris will continue to be actively involved in the Company with a particular focus on direct property.

Chris has been or is a director of various other companies, including Lauren Investments Pty Limited, Holus Nominees Pty Limited (an Existing Shareholder), Freshwell Foods Pty Limited (administrator appointed) and Ocean Eight Pty Limited.



Clive Appleton
Managing Director and
Chief Executive Officer

Clive is the Managing Director and Chief Executive Officer of the Company.

Clive joined the APN Property Group as Managing Director in April 2004 and has had a long career in property and funds management. Prior to joining the Group, Clive was the Managing Director of the Gandel Group, one of Australia's foremost shopping centre developers and managers. Prior to joining the Gandel Group in 1996, Clive was Managing Director of Centro Properties Limited (formerly Jennings Properties Limited), a listed property developer, manager and owner.

In his role as Managing Director, Clive has responsibility for the overall strategy of the Group, as well as taking a hands-on role with product development for APN FM and sourcing, evaluating, negotiating and managing individual property development opportunities for APN DD.

Clive has been or is a director of various other companies, including the Gandel Group of Companies, Centro Properties Limited, Lesinca Pty Limited, Cairnmillar Institute (Human Relations) Limited (administrator appointed) and The Cairnmillar Institute.



Howard Brechley
Executive Director and
Chief Investment Officer

Howard is an Executive Director of the Company and the APN FM Chief Investment Officer.

Howard has had a high profile as a property trust industry researcher, investor and commentator for over 16 years. Prior to joining APN FM in 1998, Howard was Research Director of Property Investment Research Pty Limited, an independent Australian research company specialising in the property trust sector.

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 or is a director of various other companies, including Cahbac Pty Limited, FM Management Services Pty Limited and Stargoal Pty Limited.



Andrew Cruickshank
Non-executive Director

As at the date of this Prospectus, Andrew is the Managing Director of APN DD. Andrew will resign from this position effective from the Listing Date. It is proposed that Andrew will continue as a Director of the Company in a non-executive capacity for a period of 12 months from the Listing Date.

Andrew has over 27 years experience in the Australian, British and Hong Kong property and finance markets. Prior to jointly establishing Australian Property Network in 1996, Andrew was General Manager of Grocon Pty Limited. Andrew's Australian property development, management and finance experience includes extensive involvement in the funding and development management of the Grocon projects at 120 and 161 Collins Street, Melbourne, the SECV headquarters in Melbourne and the Penrith Taxation Office in Sydney.

Andrew has been or is a director of various other companies, including Amsil Pty Limited (an Existing Shareholder), Broadsword Projects Pty Limited, Cahbac Pty Limited, FM Management Services Pty Limited and Lisma Pty Limited.

7.2 Senior Management

In addition to its executive directors, the Group's senior management team includes:



Michael Doble – Manager, Property Securities

Michael joined the APN Property Group in 2003. Michael has a total of 17 years property valuation, consultancy and funds management experience. Before joining the Group, Michael was Head of Property at ANZ Funds Management. Michael is the fund manager responsible for APN FM's property securities funds.



Paul Noonan – Manager, Direct Property

Paul has been involved in the property industry for over 25 years. Prior to joining the APN Property Group in 2001, Paul held senior positions with Growth Equities Mutual, Heine and Australian Unity. Paul is responsible for APN FM's direct property funds.



Michael Hodgson – Manager, Development Fund

Michael is responsible for managing the APN Development Funds. Michael has engineering and business qualifications and has significant experience in property development and construction. He has been with the APN Property Group for the past three years.



Charles Raymond – Manager, Investment Products

Charles joined the APN Property Group in 2004 and has 11 years experience in the property funds management sector. Prior to joining the Group, Charles held senior finance and management roles at ISPT, Mirvac, GRW Property and VFMC. Charles is responsible for investment product development and management.



Warren Boothman – Manager, Marketing and Investor Relations

Warren has 15 years experience in the property funds management sector. He joined the APN Property Group in 2004, following 11 years working in the listed property trust sector for Deutsche Bank and at AXA Asia Pacific. Warren is responsible for marketing and investor relations.



John Hyslop – Manager, Sales and Distribution

John joined the APN Property Group in 2005 following 18 years senior sales and marketing experience, which includes the development, launch and positioning of administration platforms such as Aviva's Navigator, Sealcorp's ASGARD and Colonial First State's FirstChoice. John has also worked overseas as property analyst in the UK. John is responsible for sales and distribution.



Jeff Stewart – General Manager, Construction

Jeff joined the APN Property Group in 2000 and has in excess of 25 years experience in the building industry. Jeff has worked with various organisations including Costain, Podgor, Prentice Builders and Wimpey in the United Kingdom. Jeff is responsible for overseeing APN DD construction operations.



Ron Palermo – Operations Manager

Ron joined the APN Property Group in 2004 and has over 14 years experience in administration in the financial services industry, including working with Hostplus Superannuation Fund and Perpetual Financial Services. Ron is responsible for APN FM's registry, client and adviser services and information technology services.



Peter Nicholson – Corporate Accountant and Company Secretary

Prior to joining the APN Property Group 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 for AXA's listed and unlisted property trusts. Peter is responsible for overseeing the internal accounting and company secretarial functions.

7.3 Corporate Governance

The Company's Board is responsible for guiding and monitoring the Company on behalf of shareholders by whom they are elected and to whom they are accountable. The Board's responsibilities include:

- oversight of the Company, 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 investment officer (or equivalent) 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.

In order to better manage its responsibilities, the Board has established an Audit and Risk Committee. The Board has also resolved to establish a Nomination and Remuneration Committee.

Additionally, the Board has also adopted a Securities Trading Policy and a Continuous Disclosure Policy.

(a) Audit and Risk Committee

The Audit and Risk Committee's primary responsibility is to establish a sound system of risk oversight and management and internal control.

The purposes of the committee include:

- to provide a mechanism for the Board to focus on risk oversight and management and internal control;
- to develop policies that clearly describe the roles and respective accountabilities of the Board, management and any internal audit function;
- to make recommendations to the Board on the establishment and implementation of the Company's risk management system; and
- to make recommendations to the Board on the Company's risk profile.

As at the date of this Prospectus, the members of the Audit and Risk Committee are Andrew Cruickshank (chair), Chris Aylward and Clive Appleton. It is expected that any independent non-executive director who joins the Board will become a member of the Audit and Risk Committee.

(b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee's primary responsibilities will be to:

- provide a mechanism for the Board to focus the Company on appropriate nomination and remuneration policies which are designed to meet the needs of the Company and to enhance corporate and individual performance;
- develop remuneration policies which involve a balance between fixed and incentive pay and reflect short and long term performance objectives appropriate to the Company's circumstances and goals;
- ensure the Board, management and the committee are provided with sufficient information to enable informed decision making on the issue of remuneration and nomination of the Board and senior management;
- fairly and regularly review the performance of the Board and key executives against both measurable and qualitative indicators; and
- advise the Board on the appropriate disclosure to be made in relation to executive remuneration, termination payments and retirement benefits.

(c) Securities Trading Policy

The Company has adopted a Securities Trading Policy for directors, officers, senior management and other employees. The policy requires Directors, the Company Secretary, senior management and other employees of the

Company to only deal in the Company's securities and securities in funds managed by APN FM during certain trading windows. Further, the policy requires that the approval of the Company Secretary must be obtained prior to trading in securities in the Company or funds managed by APN FM.

(d) Continuous Disclosure

The Board aims to ensure that all shareholders are kept informed of all material developments affecting the Company's business in accordance with applicable disclosure requirements. Information will be communicated to shareholders through the annual general meeting, annual report, half year and full year results announcements and formal disclosures to ASX.

The Company has adopted a continuous disclosure policy that provides guidance in respect of various matters relevant to disclosure, including:

- the Company's disclosure obligations;
- the type of information that must be disclosed;
- the procedure for internal notification and decision making; and
- the protocol for media contact and comment.

(e) ASX Corporate Governance Guidelines

The Company does not, at the date of the Offer, meet all of the Principles of Good Corporate Governance and Best Practice Recommendations as published by the ASX Corporate Governance Council (ASX Corporate Governance Guidelines). The ASX Corporate Governance Guidelines not currently met by the Company include:

- a majority of an ASX-listed company's board should comprise independent directors;
- the chairman should be an independent director; and
- audit and remuneration committees of an ASX-listed company should only consist of non-executive directors, with the committees comprising a majority of independent directors.

As noted in section 7.1, the Board will be made up of one non-executive director (being Andrew Cruickshank) and three executive directors (being Chris Aylward, Clive Appleton and Howard Brenchley). The non-executive director will not be independent for the purposes of the ASX Corporate Governance Guidelines.

Each member of the Board must bring an independent view and judgement to the Board and must declare actual and potential conflicts of interest.

The Board has carefully considered the size and composition of the Board and formed the view that the Board, as currently composed, has the necessary skills and motivation to ensure that the Company continues to perform strongly, notwithstanding that its composition does not meet all of the ASX Corporate Governance Guidelines. The Board is of the view that the current composition, despite the lack of a majority of independent non-executive directors, serves the current interests of shareholders for the following reasons:

- the discrete investment profile of the Company requires board members with a high degree of experience and expertise in property and property securities funds;
- the Group's core business, the funds management business, operates within a strong regulatory and compliance framework that includes strict audit and risk management requirements as well as review by a compliance committee that consists of a majority of external members;
- APN FM has a conflict of interest and related party transactions policy which ensures that all transactions engaged in by APN FM are assessed for conflict of interest and to ensure they are reasonable "arm's length" transactions based on appropriate commercial terms; and
- the Company has a Board Charter that ensures that all directors bring an independent business judgment that enhances the effective function of the Board.

As noted earlier, it is the Company's intention to appoint at least one independent non-executive director should a suitably qualified candidate or candidates become available. All departures from the ASX Corporate Governance Guidelines will be fully disclosed and explained in the Company's annual report.

(f) Related party transactions

See section 11.11(b) for information on the Company's policies and procedures in respect of related party transactions.

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Our brand of **property** investment



SECTION 8

Financial Information

SECTION 8

Financial Information

8.1 Overview

(a) Introduction

This section contains information concerning the historical, pro forma historical and forecast financial information of the Group, which has been prepared on a basis that assumes the Offer and Buy-back are completed.

Assumptions underlying the preparation of the historical, pro forma historical and forecast financial information are presented together with a sensitivity analysis demonstrating the impact on the forecast financial information of variations in key assumptions.

This section should be read in conjunction with the assumptions underlying their preparation as set out in this section, the accounting policies set out in Note 1 of the Appendix to this section, the risks contained in section 10, and other information contained in the Prospectus.

(b) Investigating Accountant's report

The Investigating Accountant has reviewed the historical, pro forma historical and forecast financial information of the Group. The historical, pro forma historical and forecast financial information should be read in conjunction with the Investigating Accountant's report set out in section 9 and the Appendix to this section. Investors should note the comments made in relation to the scope and limitations of the review.

(c) Summary financial information

Table 8.1.1 Summary Financial Information

| \$000 | FY03 Pro forma Combined | FY04 Pro forma Combined | FY05 Pro forma Forecast | FY06 Forecast |
|---|-------------------------------|-------------------------------|-------------------------------|------------------|
| Revenue | | | | |
| APN FM | 5,244 | 12,778 | 16,878 | 19,991 |
| APN DD | 25,697 | 20,006 | 60,813 | 8,312 |
| | 30,941 | 32,784 | 77,691 | 28,303 |
| Expenses | | | | |
| APN FM | (3,166) | (7,938) | (10,285) | (8,178) |
| APN DD | (23,115) | (27,681) | (60,303) | (6,877) |
| | (26,281) | (35,619) | (70,588) | (15,055) |
| EBITDA | | | | |
| APN FM | 2,078 | 4,840 | 6,593 | 11,813 |
| APN DD | 2,582 | (7,675) | 510 | 1,435 |
| | 4,660 | (2,835) | 7,103 | 13,248 |
| Depreciation | | | (109) | (78) |
| Amortisation | | | (1,621) | (1,621) |
| EBIT | | | 5,373 | 11,549 |
| Interest | | | (214) | 541 |
| EBT | | | 5,159 | 12,090 |
| Income tax expense | | | (2,038) | (4,113) |
| Net profit | | | 3,121 | 7,977 |
| Weighted avg no. of ord. shares | | | 115,049,000 | 115,049,000 |
| Basic EPS before amortisation (EPSA cents) | | | 4.1 | 8.3 |
| Basic EPS (EPS cents) | | | 2.7 | 6.9 |

Refer to section 8.3 below for details of pro forma adjustments made to the statutory accounts in FY03 and FY04 and sections 8.4 and 8.5 below for explanation of the forecast results and the material assumptions underpinning them.

8.2 Basis of preparation

(a) Pro forma historical financial performance

In respect of the years ended 30 June 2003 and 30 June 2004 the pro forma statement of financial performance for the Group is based on information extracted from the statements of financial performance of APN DD and APN FM, which have been subject to audit by KPMG, adjusted to eliminate inter-Group transactions.

The audit report issued by KPMG in relation to APN DD for the year ended 30 June 2003 contained the following qualification in respect of the opening balance sheet not being audited:

“The financial report for the year ended 30 June 2002 has not been audited. We have been unable to obtain sufficient appropriate audit evidence to enable us to form an opinion on the comparatives for 30 June 2002. Accordingly, we are not in a position to and do not express an opinion on the comparative balances for both the Company and the consolidated entity. The results of the Company and the consolidated entity for the year ended 30 June 2003 would be effected to the extent of any misstatement of financial information in the 30 June 2002 financial report.”

The pro forma statements of historical financial performance have been presented before depreciation and amortisation, net borrowing costs, financing activities and income tax (EBITDA). The entities that comprise APN DD and APN FM have previously operated under different corporate structures with significantly different

capital structures and income tax circumstances, and hence reporting depreciation and amortisation, net borrowing costs, financing activities and income tax is not considered to be meaningful or appropriate.

The pro forma historical financial information has been prepared in order to give investors an indication of the financial profile of the Group as if it had owned APN DD and APN FM since 1 July 2002. It does not necessarily illustrate the financial position that would have been obtained or the financial performance or cash flows that would have occurred had APN DD and APN FM been acquired at the beginning of the 2003 financial period, principally given that the financial performance has not been adjusted for changes in capital structure.

The pro forma historical financial information included in this Prospectus is presented in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

(b) Forecast financial information

The Directors' forecast statement of financial performance and free cash flows is intended to give the investor an understanding of the forecast financial performance and free cash flows of the Group assuming the Offer and Buy-back were completed on 1 January 2005.

The actual audited financial results for the year ending 30 June 2005 may vary from the forecast financial information presented in the Prospectus because the actual audited financial results for the year ending 30 June 2005 will include the impact of the Offer and Buy-back from the date they occur, whereas the forecast financial information presented herein shows the Offer and Buy-back from 1 January 2005.

In respect of the forecast financial information, the following information has been presented in respect of the years ended 30 June 2005 and 30 June 2006 (collectively the Forecasts):

- pro forma forecast statement of financial performance and cash flows for the Group for the year ending 30 June 2005. This information is based on information extracted from the audited statement of financial performance of the Group for the six months ended 31 December 2004; adjusted to reflect the impact of certain non-recurring items identified by management, to reflect the results and cash flows of APN DD and APN FM as if the acquisition by the Company had occurred on 1 July 2004 and the Directors' forecasts for the six months ended 30 June 2005; and
- a reconciliation between the pro forma forecast and statutory accounting forecast statement of financial performance for the year ending 30 June 2005 for the Group. The statutory accounting forecast is based on information extracted from the audited statement of financial performance of the Group for the six months ended 31 December 2004 (which includes the results from operations of APN DD and APN FM since they were acquired on 10 September 2004) and the Directors' forecasts for the six months ended 30 June 2005; and
- forecast statements, financial performance and cash flows for the Company for the year ended 30 June 2006.

In respect of the forecast financial information:

- The forecasts have been prepared based on certain best estimate assumptions as determined by the Directors regarding the forecast performance of the Group.
- The best estimate assumptions reflect the Directors' assessment of present circumstances, anticipated economic and operating conditions and the implementation of management's business strategies.
- The forecast financial information has been prepared in accordance with the Group's significant accounting policies as set out in Note 1 of the Appendix to this section.
- Key assumptions underlying the 2005 and 2006 forecast financial information are presented in section 8.5.

(c) Historical and pro forma statement of financial position

The pro forma statement of financial position of the Group has been prepared to illustrate the impact of the Offer and the Buy-back as at 31 December 2004 and assuming these events occurred on that date.

The pro forma statement of financial position has been derived from the audited statement of financial position of the Group as at 31 December 2004 together with adjustments required to effect the implementation of the Offer.

(d) Sensitivity analysis

The forecast financial information should be read in conjunction with the sensitivity analysis in section 8.6, which illustrates the impact on the forecast of variations in certain key assumptions.

(e) Unforeseen events

The Group has used due care and attention in the preparation of this forecast financial information and considers the assumptions to be reasonable when viewed as a whole. However, this information is not fact and readers are cautioned not to place undue reliance on the forecast financial information.

Forecasts are, by their nature, subject to a variety of business, economic and competitive risks and uncertainties, many of which are outside the control of the Company and the Directors. Events and circumstances often do not occur as anticipated, and therefore actual results are likely to differ from the forecasts. These differences may be material. Accordingly, the Directors cannot, and do not, offer any assurance that the forecasts will be achieved.

Events and outcomes might differ in quantum and timing from the assumptions, with material consequential impact on the forecast financial information. The sensitivity analysis in section 8.6 summarises the sensitivity of the forecast EBITDA for 2005 and 2006 to changes in certain key assumptions.

The preparation of the forecast financial information and the Investigating Accountant's review thereof has been undertaken in accordance with Australian auditing standards and should be read in that context.

(f) Impact of convergence to AIFRS

The financial information contained in sections 8.1 to 8.7 has been prepared in accordance with the current Australian Generally Accepted Accounting Principles (AGAAP). Refer to section 8.8 for further information in regard to the impact of the convergence to the Australian equivalent IFRS (AIFRS).

8.3 Pro forma historical financial performance

The following table sets out the pro forma statements of financial performance for the years ended 30 June 2003 and 30 June 2004:

Table 8.3.1 Pro-forma Combined Statements of Financial Performance for the years ended 30 June 2003 and 2004

| \$000 | APN DD Adjusted | FY03 APN FM Adjusted | Pro forma Combined | APN DD Adjusted | FY04 APN FM Adjusted | Pro forma Combined |
|---------------|--------------------|----------------------------|-----------------------|--------------------|----------------------------|-----------------------|
| Revenue | 25,697 | 5,244 | 30,941 | 20,006 | 12,778 | 32,784 |
| Expenses | (23,115) | (3,166) | (26,281) | (27,681) | (7,938) | (35,619) |
| EBITDA | 2,582 | 2,078 | 4,660 | (7,675) | 4,840 | (2,835) |

Notes

APN DD's results in FY03 have been adjusted to remove the results of APN FM which was owned by APN DD up until 2 December 2002 (EBITDA of \$0.725 million) and for rent and other expenses incurred by APN DD and on-charged to APN FM of \$15,000 in FY03 and \$320,000 in FY04.

Management discussion & analysis

Management determined to fully provide for a loss on the construction and development of the 16 Liverpool Street project in FY04. The impact of this project on the FY04 EBITDA was a loss of \$5.1 million. This reflects a once only loss for the division as the provision is expected to cover forecast costs in excess of revenues.

8.4 Forecast financial performance and cash flows

(a) Forecast financial performance for the years ending 30 June 2005 and 30 June 2006

The following table sets out a summary of the forecast statements of financial performance for the years ending 30 June 2005 and 30 June 2006.

Table 8.4.1 2005 Pro Forma and 2006 Forecast Statements of Financial Performance

| \$000 | APN DD | FY05 APN FM | Combined | APN DD | FY06 APN FM | Combined |
|---|---------------|----------------|---------------|--------------|----------------|---------------|
| Revenue | 60,813 | 16,878 | 77,691 | 8,312 | 19,991 | 28,303 |
| Expenses | (60,303) | (10,285) | (70,588) | (6,877) | (8,178) | (15,055) |
| EBITDA | 510 | 6,593 | 7,103 | 1,435 | 11,813 | 13,248 |
| Depreciation | | | (109) | | | (78) |
| Amortisation | | | (1,621) | | | (1,621) |
| EBIT | | | 5,373 | | | 11,549 |
| Interest | | | (214) | | | 541 |
| EBT | | | 5,159 | | | 12,090 |
| Income tax expense | | | (2,038) | | | (4,113) |
| Net profit | | | 3,121 | | | 7,977 |
| Weighted avg no. of ord. shares | | | 115,049,000 | | | 115,049,000 |
| Basic EPS before amortisation (EPSA cents) | | | 4.1 | | | 8.3 |
| Basic EPS (EPS cents) | | | 2.7 | | | 6.9 |

Notes

- EPS is calculated on issued capital following the Offer and Buy-back as if the Shares have been on issue since 1 July 2004. EPS calculated under AASB 1027 would be different, however, the Directors have determined that the EPS presented provides a more meaningful and comparable basis to investors.
- Pro forma forecast financial information for FY05 is based on information extracted from the audited statement of financial performance of the Group for the six months ended 31 December 2004 and the Directors' forecasts for the six months ending 30 June 2005 and reflects the results of the Group as if the acquisition of APN DD and APN FM by the Company had occurred on 1 July 2004 and adjusted for non-recurring items and reflects the impact of the new capital structure (details of which are set out in sections 8.5.(c) and 8.7) that will be in place upon the Offer and Buy-back, as if it were in place on 1 January 2005.
- Forecast financial information is based on a number of estimates, assumptions and pro forma adjustments as described in sections 8.4.(b) and 8.5.

Management discussion & analysis

APN FM

- Revenues in FY05 are forecast to increase by 32% over FY04 to \$16.9 million and increase a further 18% to \$20.0 million in FY06.
- EBITDA in FY05 is forecast to increase by 36% over FY04 to \$6.6 million and increase a further 79% in FY06 to \$11.8 million.
- In FY05 management has forecast some \$2.1 million in fund set up expenses comprising \$0.4 million to establish the APN Development Fund No. 1 and a further \$1.7 million for costs associated with the proposed European retail property trust. In the event that the European retail property trust proceeds it is expected that these costs will be recovered (the forecasts assume no such recovery). In addition, an amount of \$0.75 million was paid as a redundancy payment. In aggregate, the combination of these total \$2.85 million.
- Operating expenses in APN FM are forecast to decrease from \$10.3 million in FY05 to \$8.2 million in FY06 mainly due to decreased upfront fund set up costs of \$3.3 million (\$3.7 million in FY05, \$0.4 million in FY06), offset by a \$1.2 million increase in other operating expenses (mainly employee costs).

APN DD

- FY05 revenue of \$60.8 million includes \$32.2 million in relation to 380-390 La Trobe Street (predominantly from the sale of an equitable interest); \$17.9 million in relation to 16 Liverpool Street development and construction contracts (expected to complete in June 2005); and \$10.4 million from the Emmy Monash construction project.
- FY06 revenue of \$8.3 million includes \$1.0 million relating to its joint venture share of rental revenue derived from the remaining let areas of 380-390 La Trobe Street; \$2.3 million from the Emmy Monash construction project; and \$4.8 million from the Signature Building development project.

- After a detailed review of various applicable Australian Accounting Standards, the Directors determined to treat the 380-390 La Trobe Street project as a joint venture. This results in the deferral of construction profit of approximately \$4.7 million available to be recognised in future periods. The forecast for FY05 emerges \$3.3 million of this profit in concert with the proposed partial sale of an equitable interest in 380-390 La Trobe Street. The balance of \$1.4 million is expected to emerge when the remaining parts of the building are also sold, which is not expected to occur in the Forecast Period.
- The Group is also entitled to a share of profit if the value of the total sale of 380-390 La Trobe Street exceeds \$82 million. The forecasts allow for additional profit of \$0.4 million.
- EBITDA is forecast to be \$0.5 million in FY05 and \$1.4 million in FY06.

(b) Reconciliation between pro forma forecast and statutory accounting forecast

The pro forma forecast is presented as if the Group had effected the acquisition of APN DD and APN FM on 1 July 2004, whereas the acquisition actually occurred on 10 September 2004, and excludes one off items. Consequently the statutory accounting forecast will differ from the pro forma forecast. The difference is reconciled in the table below:

Table 8.4.2 Reconciliation between Pro Forma Forecast and Statutory Accounting Forecast

| \$000 | FY05 |
|--|--------------|
| Pro forma forecast NPAT | 3,121 |
| Add/(less): | |
| APN DD loss prior to 10 September 2004 | 729 |
| APN FM profit prior to 10 September 2004 | (1,422) |
| Notional amortisation of goodwill prior to 10 September 2004 | 313 |
| Notional interest in APG prior to 10 September 2004 | 152 |
| Notional APG tax benefit prior to 10 September 2004 | (46) |
| Non-recurring items: | |
| Write off of goodwill in APN FM | (484) |
| Statutory accounting forecast NPAT | 2,363 |

Notes

The statutory accounting forecast financial information for 2005 is derived from the audited historical financial information for the six months ended 31 December 2004 and Directors' pro forma forecasts for the six months ending 30 June 2005 and reflects the impact of the Offer and Buy-back as if they were in place on 1 January 2005. The impact of the Offer occurring on the actual date is not expected to be material and has not been adjusted above.

(c) Forecast operating cash flows for the years ending 30 June 2005 and 30 June 2006

The following table sets out the forecast free cash flows for the year ending 30 June 2005, assuming the Offer was implemented on 1 January 2005. Free cash flows represent operating cash flows (approximated by EBITDA and change in working capital), less interest and tax paid, capital expenditure and include proceeds and repayment of project related borrowings and exclude proceeds and uses of the Offer.

Table 8.4.3 2005 Pro Forma and 2006 Forecast Statements of Free Cashflows (continued overleaf)

| \$000 | FY05 | | | FY06 | | |
|--|----------------|--------------|----------------|--------------|---------------|---------------|
| | APN DD | APN FM | Combined | APN DD | APN FM | Combined |
| Pro forma EBITDA | 510 | 6,593 | 7,103 | 1,435 | 11,813 | 13,248 |
| Non-cash items | (52) | (1) | (53) | – | – | – |
| Change in working capital | 31,080 | 955 | 32,035 | 767 | (2,914) | (2,147) |
| Capital expenditures | (22) | (31) | (53) | – | – | – |
| Proceeds from project finance | 12,759 | – | 12,759 | – | – | – |
| Repayments of project finance | (53,995) | – | (53,995) | – | – | – |
| Free cash flows (before tax, investing and non-project financing) (c.fwd) | (9,720) | 7,516 | (2,204) | 2,202 | 8,899 | 11,101 |

Table 8.4.3 2005 Pro Forma and 2006 Forecast Statements of Free Cashflows continued

| \$000 | APN DD | FY05 APN FM | Combined | APN DD | FY06 APN FM | Combined |
|--|--------|----------------|----------------|--------|----------------|---------------|
| Free cash flows (before tax, investing and non-project financing) (b.fwd) | | | (2,204) | | | 11,101 |
| Net proceeds/(repayments) of non-project finance | | | 2,854 | | | (3,613) |
| Net interest (paid)/received | | | (62) | | | 541 |
| Investments | | | 943 | | | 407 |
| Tax paid | | | (1,457) | | | (2,698) |
| Other | | | | | | – |
| Free cash flows | | | 74 | | | 5,738 |

Notes

a Refer to section 8.4.1 for details of adjustments made to EBITDA.

b Proceeds and repayment of project related borrowings are disclosed in the audited financial statements as a financing activity. These have been included above.

Management discussion & analysis

In FY05, all project specific bank funding of the Group is forecast to be repaid: \$29.5 million to be repaid to the Westpac Banking Corporation upon sale of an equitable interest in the 380-390 La Trobe Street building; and \$19.3 million to be repaid to Capital Finance Australia Limited and \$5.2 million to be repaid to Babcock and Brown Real Estate Finance Pty Limited upon completion of the 16 Liverpool Street project.

Included in investments are security deposits. In FY05, \$3.0 million will be released from security deposits into cash (\$2.0 million for 380-390 La Trobe Street and \$1.0 million for 16 Liverpool Street). Part of this cash will be used for an equity contribution into the APN Development Fund No. 1 of \$1.0 million with a further \$1.0 million to be placed on term deposit. In FY06, \$1.1 million will be released from security deposits (\$0.4 million for 16 Liverpool Street, \$0.3 million for Emmy Monash and \$0.4 million for the Signature Building). Security deposits remaining at the end of FY06 will be \$0.8 million.

8.5 Material assumptions

The forecast statements of financial performance have been compiled with regard to the following key assumptions:

(a) Specific assumptions relating to APN FM

The key drivers of the forecast growth in section 8.4(a) are an increase in manager's fees resulting from growth in assets under management in the APN Property for Income Fund and APN Property for Income Fund No. 2 and upfront fees earned on direct property investments forecast to be made by the APN National Storage Property Trust and the APN Direct Property Fund in FY06.

The key assumptions underlying these forecasts are as follows:

Responsible entity fees

- APN Property for Income Fund and APN Property for Income Fund No. 2 – Responsible entity fees of up to 0.95% of NAV.
- APN International Property for Income Fund – Responsible entity fees of up to 0.6% of NAV.
- APN Regional Property Fund – Responsible entity fees of up to 1% of GAV.
- APN Development Fund No. 1 – Base responsible entity fee of 1.25% per annum of invested capital (minimum \$0.4 million per annum).
- APN National Storage Property Trust – Responsible entity fees of up to 0.4% of GAV.
- APN Property Plus Portfolio – Responsible entity fees of up to 1% of GAV.
- APN Retirement Properties Fund – Responsible entity fees of up to 0.475% of NAV.
- APN Direct Property Fund – Responsible entity fees of up to 0.95% of GAV, plus up to 1% property acquisition fee.

- APN FM fees are received in the month after invoicing and creditors are paid 5% in the month of invoice, 60% in the month following and 35% in the month after.

Market value of investments

- Actual assets under management for the APN Property for Income Fund is included in the forecasts up to 31 March 2005. At 31 March 2005 this amounted to \$1.38 billion (pre-distribution).
- There will be no change in the market value of the underlying investments for each of the funds during the Forecast Period.

Net capital inflows

- Assumptions for net equity and debt inflows for key funds are summarised in the table below:

Table 8.5.1 Forecast net capital inflows by key fund

| | FY03 Actual ¹ | FY04 Actual ¹ | 9 mths to Mar 05 Actual ¹ | 3 mths to Jun 05 Forecast | FY06 Forecast |
|--|-----------------------------|-----------------------------|--|---------------------------------|------------------|
| Net equity inflows (\$m) | | | | | |
| APN Property for Income Fund and APN Property for Income Fund No. 2 | 330.3 | 385.7 | 241.3 | 60.0 | 210.0 |
| APN Direct Property Fund (new) | – | – | – | 6.0 | 84.0 |
| APN Development Fund No 1 (new) | – | – | – | 20.00 | 60.00 |
| Other funds | 27.0 | 62.5 | 48.1 | 5.0 | 89.0 |
| | 357.3 | 448.2 | 289.4 | 91.0 | 443.0 |
| Debt inflows (\$m) | | | | | |
| APN Direct Property Fund (new) | | | | 4.0 | 56.0 |
| APN National Storage Property Trust | | | | – | 20.0 |
| | | | | 4.0 | 76.0 |

Notes

- ¹ Actual net equity inflows are unaudited.

Direct property investments

- APN National Storage Property Trust to acquire properties valued at approximately \$30 million in FY06, earning upfront fees at 3%.
- APN Direct Property Fund to (indirectly) acquire an interest in the 380-390 La Trobe Street building for \$63 million in September 2005 and (indirectly) acquire the Signature Building for \$34.7 million by September 2005, earning upfront fees at 1%.
- The APN Development Fund No. 1 to acquire APN DD's interest in the Yatala/Coolum/Fullerton projects (see section 4.4.(b)) and all of the assets and liabilities relating to these developments in June 2005.

Operating expenses

- In the 6 months to 30 June 2005, upfront costs are forecast to be \$2.1 million of which \$1.7 million relates to the proposed European retail property trust and \$0.4 million relates to APN Development Fund No. 1. These costs will be paid in FY06. While \$1.7 million has been expensed for the proposed European retail property trust, if the trust proceeds then some or all of this expense may be recovered (the forecasts assume no such recovery). In FY06, upfront costs are forecast to be \$0.4 million and relate solely to the APN National Storage Property Trust.
- The number of employees of APN FM to increase from 20 at December 2004 to 32 by June 2006, representing a 60% increase.
- Wholesale and retail rebates and custody expenses which only relate to the APN Property for Income Fund and APN Property for Income Fund No. 2 are to increase in line with assets under management.

(b) Specific assumptions relating to APN DD

The key assumptions underlying these forecasts are as follows:

- Construction of the 518-526 Dandenong Road, North Caulfield Victoria project (Emmy Monash) (see section 4.4.(a)) will be completed in FY06 based on the project manager's current estimate. Profits will be brought to account on a percentage completion basis. Revenues of \$10.4 million in FY05 and \$2.3 million in FY06.
- Construction and development of the 16 Liverpool Street, Melbourne Victoria project (see section 4.4.(a)) will be completed in FY05, no renounceable contracts will be exercised and no additional costs will be incurred other than as provided for at 31 December 2004. Nil profit will be generated. Revenues of \$17.9 million in FY05. The proceeds will be used to repay project financing in relation to this project.
- The 120 Harbour Esplanade Docklands (Signature Building) development (see section 4.4.(a)) will be sold to APN FM as responsible entity for the APN Direct Property Fund in FY06 generating a development profit of \$2.4 million. Revenues of \$4.8 million in FY 06.
- An equitable interest in the AWB Services, Ezi Park and Cambridge let areas of 380-390 La Trobe Street (see section 4.4.(a)) will be sold to APN FM as responsible entity for underlying APN FM funds in FY05 generating a profit of \$3.6 million. Revenues of \$32.2 million in FY05 and \$2.3 million in FY06. FY06 revenue relates to share of joint venture rental revenues. The proceeds will be used to repay project financing in relation to this project.
- No profit and loss impact will result from APN DD's investment in the Yatala/Coolum/Fullerton projects (see section 4.4(b)) or from the sale of these projects to the APN Development Fund No. 1.
- The number of head-office employees of APN DD to decrease from 12 at December 2004 to 10 by June 2006, with a greater proportion of salaries attributed to APN FM.

(c) General assumptions underlying the forecasts

Regulatory and legal

- No material adverse change in the legislative regimes and regulatory environments (including in relation to tax) in Australia which will materially impact on the forecasts.
- No material amendment to any material agreement or arrangement relating to any company in the Group or any fund that APN FM manages. The parties to those agreements and arrangements are assumed to continue to comply with the terms of all material agreements and arrangements.
- No material changes to the Group's accounting policies or to Australian accounting standards, Australian equivalents of International Financial Reporting Standards, Statements of Accounting Concepts or other mandatory professional reporting requirements including Urgent Issues Group Consensus Views or the Corporations Act which will have a material impact on the forecast financial information.
- Appropriate and sufficient insurance remains in place for each development project undertaken by APN DD and in each fund managed by APN FM which has or will have direct property investments.

Employees

- Retention of key personnel.

Macro/micro economic / political

- No significant change in the economic conditions impacting the property market in Australia or any other country in which the funds are invested or will invest in the future.
- No material adverse change in the interest rate environment.
- No material adverse changes in the prevailing political conditions in Australia that will materially impact on the forecast financial information.
- No material change in foreign exchange rates.

Corporate structure

- No material business acquisitions or disposals.
- No change in the Company's capital structure other than as set out in, or contemplated by, this Prospectus. Contemplated changes in capital structure are set out below:

| Changes in capital structure | \$000 |
|--|----------|
| Issue of 30,355,000 ordinary shares at \$1 | 30,355 |
| Issue of 645,000 ordinary shares at \$1, funded by a loan from the Company | – |
| Payment of Offer issue costs | (1,635) |
| Issue of 49,000 ordinary shares at \$1, gifted by the Company | – |
| Buy-back of 16,000,000 ordinary shares | (16,000) |
| Redemption of 4,254,500 preference shares | (4,255) |

Refer to note 15(a) in the Appendix to this section for the effect of the Offer on capital structure.

Business continuity

- No significant disruption to the operations, material disturbances, environmental costs or legal claims in relation to any of the companies in the Group or in relation to any of the funds managed by APN FM.
- No going concern issues will arise during the Forecast Period.

Other assumptions

- Goodwill arising on acquisition of APN FM and APN DD will be amortised over a 20 year useful life. No impairment over the Forecast Period.
 - An effective tax rate of 30% on profit before amortisation during the Forecast Period.
 - Tax paid has been calculated after the utilisation of tax losses.
 - Interest assumptions on cash held are as follows:
 - cash at bank: 1% in the 6 months to 30 June 2005 and 3% in FY06; and
 - cash held on term deposit: 4.45% in the 6 months to 30 June 2005 and 5.25% in FY06.
 - The Company's working capital facility obtained in FY05 (\$5.5 million at 31 December 2004) will be repaid by the end of FY06.
 - Creditors are paid 5% in the month of invoicing, 60% in the following month and 35% in the month after.
- The assumptions underlying the forecasts should be read in conjunction with the risks as set out in section 10.

8.6 Sensitivity analysis

The Directors' forecast is based on key general and specific assumptions set out in section 8.5. The Group's forecast financial performance is sensitive to movements in a number of key operating variables.

The sensitivity analysis set out below is not intended to be indicative or predictive of the complete range of variations that may occur. Investors are advised to take care in interpreting the sensitivity analysis below. The sensitivity analysis treats each movement in an operating variable in isolation from other variables and assumes no offsetting change in other variables. In practice, the Group's management would respond to any adverse change in one variable by taking appropriate action to minimise its impact. The effect of such mitigating action has been excluded from the sensitivity analysis.

The table below sets out the potential financial impact of a change in key operating variables on the Group's forecast financial performance for the years ending 30 June 2005 and 30 June 2006.

Table 8.6 Sensitivity Analysis on FY05 and FY06 Forecasts

| \$000 | FY05 Impact on NPAT | FY06 Impact on NPAT |
|--|---------------------------|---------------------------|
| APN Property for Income Fund and APN Property for Income Fund No.2 – market value of investments change at 30 June 2005 +/-10% | +/-232 | +/-878 |
| APN Property for Income Fund and APN Property for Income Fund No.2 – forecast monthly net equity inflows +/-10% beginning April 2005 | +/- 10 | +/- 122 |
| Launch of APN Direct Property Fund does not occur – impact on APN FM | -14 | -1,072 |
| Sale of 380-390 La Trobe Street let area does not occur – impact on APN DD | -2,716 | -355 |
| Signature Building sale does not occur – impact on APN DD | – | -3,518 |
| Estimated costs of construction contracts +/- \$0.5 million in FY05 (16 Liverpool Street) and +/- \$0.5 million in FY06 (Emmy Monash) | +/-350 | +/-350 |

Pro forma Consolidated Statement of Financial Position as at 31 December 2004

The table below sets out the pro forma statement of financial position as at 31 December 2004 on the basis described in section 8.2 above:

Table 8.7 Pro Forma Statement of Financial Position as at 31 December 2004

| \$'000 | Audited | Proceeds from Holus loan | Capital raised offset by issue costs | Employee share issue | Impact of Offer & Buy-back | | | | Pro forma |
|--------------------------------------|----------------|--------------------------|--------------------------------------|----------------------|----------------------------|----------------------------|--------------------|---|----------------|
| | | | | | Buy back | Preference shares redeemed | FY04 Dividend paid | Holus loan & retention guarantee repaid | |
| Cash assets | 1,821 | 450 | 28,720 | - | (16,000) | (4,255) | (5,400) | (2,450) | 2,886 |
| Receivables | 10,585 | - | - | 645 | - | - | - | - | 11,230 |
| Inventories | 53,976 | - | - | - | - | - | - | - | 53,976 |
| Other financial assets | 6,270 | - | - | - | - | - | - | 1,500 | 7,770 |
| Other | 234 | - | - | - | - | - | - | - | 234 |
| Total current assets | 72,886 | 450 | 28,720 | 645 | (16,000) | (4,255) | (5,400) | (950) | 76,096 |
| Non-current assets | | | | | | | | | |
| Intangible assets | 31,946 | - | - | - | - | - | - | - | 31,946 |
| Property, plant & equipment | 394 | - | - | - | - | - | - | - | 394 |
| Deferred tax assets | 4,884 | - | - | - | - | - | - | - | 4,884 |
| Total non-current assets | 37,224 | - | - | - | - | - | - | - | 37,224 |
| Total assets | 110,110 | 450 | 28,720 | 645 | (16,000) | (4,255) | (5,400) | (950) | 113,320 |
| Current liabilities | | | | | | | | | |
| Payables | 6,349 | - | - | - | - | - | - | - | 6,349 |
| Interest-bearing liabilities | 58,751 | 450 | - | - | - | - | - | (950) | 58,251 |
| Current tax liabilities | 284 | - | - | - | - | - | - | - | 284 |
| Provisions | 6,355 | - | - | - | - | - | (5,400) | - | 955 |
| Total current liabilities | 71,739 | 450 | - | - | - | - | (5,400) | (950) | 65,839 |
| Non-current liabilities | | | | | | | | | |
| Deferred tax liabilities | 3,624 | - | - | - | - | - | - | - | 3,624 |
| Provisions | 48 | - | - | - | - | - | - | - | 48 |
| Total non-current liabilities | 3,672 | - | - | - | - | - | - | - | 3,672 |
| Total liabilities | 75,411 | 450 | - | - | - | - | (5,400) | (950) | 69,511 |
| Net assets | 34,699 | - | 28,720 | 645 | (16,000) | (4,255) | - | - | 43,809 |
| Shareholders' equity | | | | | | | | | |
| Contributed equity | 35,095 | - | 28,720 | 645 | (16,000) | (4,255) | - | - | 44,205 |
| Retained profits | (396) | - | - | - | - | - | - | - | (396) |
| Total equity | 34,699 | - | 28,720 | 645 | (16,000) | (4,255) | - | - | 43,809 |

Note: The pro forma statement of financial position reflects the following adjustments:

- In March 2005, proceeds of \$0.45 million were received by an additional loan from Holus Nominees Pty Limited, a director related entity.
- The Offer will raise proceeds of \$31.0 million (31,000,000 Shares at \$1 each), offset by 645,000 Shares issued to employees under the Employee Purchase Offer funded by an interest free, limited recourse loan from the Company and \$1.635 million estimated costs of raising equity resulting in net equity raised of \$28.720 million.
- The gift of 49,000 Shares to employees of the Group under the Employee Gift Offer is not adjusted against contributed equity.
- The Buy-back will result in payment of \$16 million (16 million ordinary shares at \$1 each).
- A preference share redemption will also result in the payment of \$4.255 million to preference shareholders (4.255 million preference shares at \$1 each).
- Planned payment of the \$5.4 million APN DD dividend declared in September 2004.
- Replacement of Holus Nominees Pty Limited retention guarantee of \$1.5 million and repayment of Holus Nominees Pty Limited loan of \$0.95 million; \$0.5 million received pre December 2004 and \$0.45 million received in H205.

The audited statement of financial position as at 31 December 2004 has been prepared in accordance with the Group's accounting policies as set out in Note 1 of the Appendix to this section. Key financial position items are:

- Inventories (net of provisions) of \$54.0 million comprise: 380-390 La Trobe Street \$35.4 million; 16 Liverpool Street \$16.7; Signature Building \$1.5 million; and Emmy Monash \$0.4 million.
- Intangible assets of \$32.0 million include goodwill of \$31.9 million net of amortisation of \$0.4 million, arising upon the 10 September 2004 acquisitions of APN FM (\$18.9 million goodwill) and APN DD (\$13.4 million goodwill).
- Interest-bearing liabilities of \$58.7 million comprise: \$47.2 million in APN DD project funding facilities attributed to 380-390 La Trobe Street development JV (\$29.5 million) and 16 Liverpool Street project (\$17.7 million); \$5.5 million bank loan attributed to the Company; \$5.5 million relating to an ANU advance for the 380-390 La Trobe Street co-development; and \$0.5 million in loans from a related party (Hokus Nominees Pty Limited).

Refer to Note 16 of the Appendix to this section for details of contingent liabilities.

Refer to Note 11 of the Appendix to this section for details of interest-bearing liabilities (including pledged assets and bank guarantees).

8.8 Impact of adoption of Australian International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Group will be required to comply with Australian equivalent International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board (AASB).

The first complete financial report for which the Group will be required to report under AIFRS will be the financial year ending 30 June 2006 (including comparative financial information for the year ending 30 June 2005).

The financial information presented in this document that is referred to as being presented on an AIFRS basis reflects the series of standards adopted by the AASB in July 2004.

To provide an indication of the impact of AIFRS on the performance and position of the Group, pro forma forecasts of financial performance for the years ending 30 June 2005 and 30 June 2006 and a pro forma statement of financial position as at 31 December 2004 have been prepared under AIFRS on a basis otherwise consistent with the equivalent AGAAP Financial Information in sections 8.3 and 8.4. This information is presented below, with a description of the key differences between AGAAP and AIFRS as relevant to the Group set out in section 8.8(a) and the resultant pro forma statements of financial performance for the years ended 30 June 2005 and 30 June 2006 and the financial position for the year ended 31 December 2004 set out in sections 8.8(b) and 8.8(c). Detailed reconciliations between the historical pro forma statement of financial position prepared under AGAAP and under AIFRS are also set out in sections 8.8(b) and 8.8(c).

Investors are advised to review the AIFRS pro forma forecasts in conjunction with the description of the basis of preparation of the AGAAP pro forma forecasts set out in sections 8.2 to 8.7 and Note 1 of the Appendix to this section.

The Group will present actual results for 2006 under AIFRS.

There are no cash flow statements in this section as there is no material difference in cash flows reported under AGAAP and AIFRS.

(a) Description of key differences between AGAAP and AIFRS

The differences between AGAAP and AIFRS identified by the Directors as potentially having a significant effect on the financial position and financial performance of the entity are set out below. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented. Attention is drawn to the fact that adjustments to the selection and application of AIFRS accounting policies may be necessary between the date of this report and the date of the Group's first complete AIFRS financial report. Such adjustments may be required to reflect the effects of changes in financial reporting requirements that are relevant to the Group's first complete AIFRS financial report arising from new or revised standards or interpretations issued by the AASB subsequent to the date of this report.

Adjustments to the application of AIFRS and accounting policies may also be necessary to reflect the effects of changes to the Group's operations, or additional guidance on the application of AIFRS in a particular industry or to a particular transaction.

Transitional arrangements

The rules for first time adoption of AIFRS are set out in AASB 1 'First-time adoption of International Financial Reporting Standards'. In general, an entity is required to determine its AIFRS accounting policies and apply these retrospectively to determine its opening balance sheet under AIFRS. The standard allows a number of exceptions to this general principle to assist companies as they make the transition to reporting under AIFRS. The exemptions that the Group, at this stage, has elected to take advantage of for the purposes of the pro forma forecasts are outlined in section 8.8(d) below.

Other than in relation to the significant changes in accounting policies expected to be adopted in preparing AIFRS reconciliations as set out below, the entity anticipates that all accounting policies will be consistent with those used for AGAAP reporting purposes. Full details of the relevant AGAAP accounting policies are set out in Note 1 to the Group's pro forma consolidated financial information in the Appendix to this section.

(b) Statement of pro forma and forecast financial performance

To provide an indication of the impact of AIFRS on the financial performance of the Group, the following table presents pro forma forecast statement of financial performance for the year ending 30 June 2005 and forecast statement of financial performance for the year ended 30 June 2006, reconciled to AIFRS:

Table 8.8.1 Reconciliation Of AGAAP Pro forma and Forecast Financial Performance to AIFRS

| \$000 | Pro forma AGAAP | FY05 Adj | AIFRS | Notes | AGAAP | FY06 Adj | AIFRS | Notes |
|--------------------|--------------------|--------------|--------------|---------|---------------|-------------|---------------|-------|
| Revenue | 77,691 | | 77,691 | | 28,303 | | 28,303 | |
| Expenses | (70,588) | (785) | (71,373) | a,c,d,e | (15,055) | | (15,055) | |
| EBITDA | 7,103 | (785) | 6,318 | | 13,248 | – | 13,248 | |
| Depreciation | (109) | | (109) | | (78) | | (78) | |
| Amortisation | (1,621) | 1,621 | – | b | (1,621) | 1,621 | – | b |
| EBIT | 5,373 | 836 | 6,209 | | 11,549 | 1,621 | 13,170 | |
| Interest | (214) | | (214) | | 541 | | 541 | |
| EBT | 5,159 | 836 | 5,995 | | 12,090 | 1,621 | 13,711 | |
| Income tax expense | (2,038) | | (2,038) | | (4,113) | | (4,113) | |
| Net profit | 3,121 | 836 | 3,957 | | 7,977 | 1,621 | 9,598 | |

Notes

- \$0.4 million of listing costs relating to Buy-back of Existing Shareholders' Shares are to be charged to the statement of financial performance under AIFRS.
- Goodwill amortisation has been reversed. Annual impairment reviews will be performed under AIFRS and it is assumed there is no impairment over the Forecast Period.
- Additional remuneration expense in relation to the application of "AASB 2 Share-based Payments" on the company's executive and employee equity-based compensation arrangements amount to \$0.3 million (\$0.1 million relating to the 645,000 Shares issued to employees under the Employee Purchase Offer; \$0.2 million relating to the Employee Purchase Plan and the Clive Appleton Share Trust Shares issued in September 2004).
- The gift of 49,000 Shares to employees of the Group under the Employee Gift Offer must be expensed under AIFRS.
- Within Intangible Assets there is \$28,000 relating to formation costs and trademarks that are expensed under AIFRS.

(c) Pro forma statement of financial position

To provide an indication of the impact of AIFRS on the financial position of the Group, the following table presents the pro forma historical statement of financial position as at 31 December 2004, reconciled to AIFRS:

Table 8.8.2 Reconciliation of Pro forma AGAAP Statement of Financial Position as at 31 December 2004 to AIFRS

| \$000 | Pro forma AGAAP | Adj | AIFRS | Notes |
|--------------------------------------|--------------------|-----------------|---------------|------------------|
| Current assets | | | | |
| Cash assets | 2,886 | – | 2,886 | |
| Receivables | 11,230 | (4,485) | 6,745 | c |
| Inventories | 53,976 | – | 53,976 | |
| Other financial assets | 7,770 | – | 7,770 | |
| Other | 234 | – | 234 | |
| Total current assets | 76,096 | (4,485) | 71,611 | |
| Non-current assets | | | | |
| Goodwill | 31,918 | (18,553) | 13,365 | f, g |
| Intangible assets | 28 | (28) | – | b |
| Property, plant & equipment | 394 | – | 394 | |
| Deferred tax assets | 4,884 | – | 4,884 | |
| Total non-current assets | 37,224 | (18,581) | 18,643 | |
| Total assets | 113,320 | (23,066) | 90,254 | |
| Current liabilities | | | | |
| Payables | 6,349 | – | 6,349 | |
| Interest-bearing liabilities | 58,251 | – | 58,251 | |
| Current tax liabilities | 284 | – | 284 | |
| Provisions | 955 | – | 955 | |
| Total current liabilities | 65,839 | – | 65,839 | |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 3,624 | – | 3,624 | |
| Provisions | 48 | – | 48 | |
| Total non-current liabilities | 3,672 | – | 3,672 | |
| Total liabilities | 69,511 | – | 69,511 | |
| Net assets | 43,809 | (23,066) | 20,743 | |
| Shareholders' equity | | | | |
| Contributed equity | 44,205 | (23,496) | 20,709 | a, c, d, e, f |
| Retained profits | (396) | 430 | 34 | a, b, d, e, f, g |
| Total equity | 43,809 | (23,066) | 20,743 | |

Notes

- \$0.4 million of listing costs relating to Buy-back of Existing Shareholders' Shares are to be charged to the statement of financial performance under AIFRS.
- Within Intangible Assets there is \$28,000 relating to formation costs and trademarks that must be expensed under AIFRS.
- Elimination of the loans receivable in relation to the Employee Purchase Plan (previously known as the Senior Executive Share Plan), the Clive Appleton Share Trust and the 645,000 shares issued to employees under the Employee Purchase Offer; and reduction in share capital to reflect the shares held in the Company by the trusts.
- Additional remuneration expense in relation to the application of "AASB 2 Share-based Payments" on the Company's executive and employee equity-based compensation arrangements amount to \$0.3 million (\$0.1 million relating to the 645,000 Shares issued to employees under the Employee Purchase Plan Offer; \$0.2 million relating to the Employee Purchase Plan and the Clive Appleton Share Trust Shares issued in September 2004).
- The gift of 49,000 Shares to employees of the Group under the Employee Gift Offer which must be expensed under AIFRS.
- In accordance with AASB 3 Business Combinations, the 10 September 2004 acquisition has been accounted for as a reverse acquisition and the acquirer has been identified as APN FM. This results in the reversal of \$18.9 million of goodwill on consolidation recognised under AGAAP and the re-instatement of APN FM's retained profits of \$0.8 million.
- Goodwill accumulated amortisation of \$0.4 million has been written back against retained profits for AIFRS purposes.

(d) Differences between AGAAP and AIFRS explained

The differences between AGAAP and AIFRS identified by the Company as potentially having a significant effect on the pro forma financial position as at 31 December 2004 and pro forma forecast performance for the years ending 30 June 2005 and 30 June 2006 are summarised below.

Cost of listing existing shares

Under AASB 132 "Financial Instruments: Disclosure and Presentation", the entity will be required to expense transaction costs relating to the listing of existing shares. Transaction costs that relate jointly to more than one transaction (eg. concurrent offering of new shares and stock exchange listing of existing shares) are allocated to those transactions.

The impact of the adjustment on the Company is forecast to be a \$0.4 million change to the income statement, rather than to equity.

Goodwill

Under AIFRS, 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.

Amortisation

Under AIFRS, goodwill will not be subject to amortisation but tested for impairment annually. The entity's AGAAP accounting policy is to recognise goodwill on a straight-line basis over the estimated useful lives of the intangible assets (currently 20 years). The estimated useful life of goodwill arising on the acquisition of APN FM and APN DD is expected to be indefinite.

The impact of the adjustment on the Group is a reduction in amortisation of approximately \$1.6 million each year and accumulated amortisation of approximately \$0.4 million at 31 December 2004.

The forecasts assume that no impairment will occur from annual impairment tests.

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

Other intangible assets

Other intangible assets consists of formation costs and trade marks amounting to \$28,000 that are expensed under AIFRS.

Accounting for share-based payments

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 Employee Share Purchase Plan (previously known as APN Property Group Limited Senior Executive Share Plan No. 1) and the Clive Appleton Share Trust, which administers the Group's share based payment plans. Under 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.

As a result of adopting AASB 2 and in light of recent changes to UIG 112: "Consolidation – Special Purpose Entities", the parent entity is required to consolidate the results, financial position and cash flows of the Employee Purchase Plan and the Clive Appleton Share Trust, from transition date.

The following adjustments to the AGAAP pro forma historical statement of financial position as at 31 December 2004 are required under AIFRS:

- elimination of the loan receivable from the Employee Purchase Plan (\$0.756 million at 31 December 2004);
- elimination of the loan receivable from the Clive Appleton Share Trust (\$3.084 million at 31 December 2004);
- elimination of the receivable included in the pro forma 31 December 2004 AGAAP balance sheet of \$0.645 million representing shares to be issued to employees under the Employee Purchase Offer funded by a loan from the Company (refer to section 8.7 above);
- reduction in share capital to reflect the pro forma shares held in APN Property Group Limited by the trusts (\$4.485 million); and
- reduction to retained earnings of \$49,000 associated with the gifting of 49,000 Shares under the Employee Gift Offer.

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 become 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.

The overall adjustment to the forecast statement of financial performance in relation to the above cost is \$0.3 million in FY05.

(e) Summary of significant accounting policy changes under AIFRS

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

Leased assets

Classification

At the date for transition to AIFRS leases will be classified as operating leases or finance leases on the basis of circumstances existing at inception of the lease. Under AGAAP 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.

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 AGAAP 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.

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 trademarks amounting to \$28,000 have been written off for this AIFRS balance sheet as at 31 December 2004.

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 |

Impairment

Under current AGAAP 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 AGAAP 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.

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 above), 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.

Calculation of recoverable amount

Under current AGAAP, 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 AGAAP 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.

There is no expected impact of this change in treatment on transition.

Taxation

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

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 1 July 2004, 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

The Urgent Issues Group (UIG) is currently deliberating the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. It is currently proposed that wholly owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via an equity contribution or distribution.

As the interpretation is yet to be issued the impact of any change has not been quantified.

Employee benefits

Share based payments

Under current AGAAP, 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.

Borrowing costs

Current AGAAP 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 AGAAP.

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.

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.

Share issue costs

Under AGAAP, share issue costs, including listing costs are able to be applied against the equity raised within equity in the statement of financial position and not charged to the statement of financial performance.

Under AIFRS, certain listing and share issue costs which relate to Existing Shareholders' Shares will be charged to the statement of financial performance.

APPENDIX TO SECTION 8 – FINANCIAL INFORMATION

Notes to the pro forma consolidated financial information

1 Summary of accounting policies

Financial reporting framework

The financial information has been prepared in accordance with the recognition and measurement policies of all applicable Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board that have a material effect. The financial information does not include all disclosures required by the Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The financial information 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. Cost is based on the fair values of the consideration given in exchange of assets.

Significant accounting policies

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there has been a change in accounting policy, are consistent with those of the previous period. The following significant accounting policies have been adopted in the preparation and presentation of the financial information:

(a) 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 brought to account by including its share of joint venture operations assets, liabilities and expenses and the consolidated entity's 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.

(b) 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 is 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 of value of the contract, as assessed by reference to surveys of work performed.

Notes to the pro forma consolidated financial information

1 Summary of accounting policies continued

(b) Revenue recognition continued

Construction contracts continued

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

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.

(c) 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.

(d) 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.

(e) 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 brought 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 brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought 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. 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.

(f) Cash assets and bank overdrafts

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

(g) Receivables

The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

(h) 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.

Notes to the pro forma consolidated financial information

1 Summary of accounting policies continued

(i) 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.

Depreciation/Amortisation

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

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

(j) 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.

(k) 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.

(l) 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.

(m) 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".

(n) 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 several defined benefit and 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.

(o) 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.

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.

Notes to the pro forma consolidated financial information

1 Summary of accounting policies continued

(o) Provisions continued

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.

(p) 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.

(q) 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 and 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(c) above.

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.

(r) 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(j).

Other entities

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

(s) 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.

(t) 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.

(u) 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.

(v) Financial period

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

| | | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|---|--|--|---|
| 2 | Cash assets | | |
| | Cash at bank and on hand | 1,821 | 2,886 |
| 3 | Receivables | | |
| | Current | | |
| | | Note | |
| | Trade debtors | 4,885 | 4,885 |
| | Loans to controlled entities | – | – |
| | Provision for diminution of intercompany loans | – | – |
| | <i>Net loans to controlled entities</i> | – | – |
| | Other debtors | 1,860 | 1,860 |
| | Loans receivable | 3,840 | 4,485 |
| | | 10,585 | 11,230 |

Pro forma adjustment

(a) The issue of 645,000 Shares to employees under the Employee Purchase Offer funded by a loan from the Company adjusts the 'loans receivables' balance.

Notes to the pro forma consolidated financial information

| | | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|---|--|--|---|
| 4 | Inventories | | |
| | Current | | |
| | Construction work in progress | 12,625 | 12,625 |
| | Provision for construction loss | (982) | (982) |
| | <i>Construction work in progress net of provision</i> | 11,643 | 11,643 |
| | <i>Development properties</i> | 35,400 | 35,400 |
| | Development costs capitalised | 7,853 | 7,853 |
| | Provision for development loss | (920) | (920) |
| | <i>Development activities net of provision</i> | 6,933 | 6,933 |
| | | 53,976 | 53,976 |
| 5 | Other financial assets | | |
| | | Note | |
| | Investments in related parties | – | – |
| | Investments in cash deposits | (a) | 7,768 |
| | Investments – other | 2 | 2 |
| | | 6,270 | 7,770 |
| | Short-term deposits | | |
| | Short-term deposits mature within 30 days and pay interest at a weighted average interest rate of 5.2% at 31 December 2004. | | |
| | <i>Pro forma adjustment</i> | | |
| | (a) The replacement of the Holus Nominees Pty Limited retention guarantee of \$1.5 million increases the investments in cash deposits balance. | | |
| 6 | Other current assets | | |
| | Accrued Income | 33 | 33 |
| | Prepayments | 201 | 201 |
| | | 234 | 234 |
| 7 | Intangible Assets | | |
| | <i>Goodwill</i> | | |
| | At cost | 33,122 | 33,122 |
| | Accumulated amortisation | (1,204) | (1,204) |
| | | 31,918 | 31,918 |
| | <i>Formation Costs</i> | | |
| | At cost | 28 | 28 |
| | Accumulated amortisation | (7) | (7) |
| | | 21 | 21 |
| | Trade Marks | 7 | 7 |
| | Total Intangible Assets | 31,946 | 31,946 |

| | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|-----------|--|---|
| 8 | Property, plant and equipment | |
| | <i>Buildings</i> | |
| | At cost | 10 |
| | Accumulated depreciation | – |
| | | 10 |
| | <i>Leasehold improvements</i> | |
| | At cost | 172 |
| | Accumulated depreciation | (29) |
| | | 143 |
| | <i>Plant and equipment</i> | |
| | At cost | 611 |
| | Accumulated depreciation | (370) |
| | | 241 |
| | <i>Total property, plant and equipment</i> | |
| | Book value | 394 |
| 9 | Deferred tax assets | |
| | <i>Future income tax benefit</i> | |
| | 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 | 381 |
| | Difference in depreciation of property, plant and equipment for accounting and tax purposes | – |
| | Timing differences arising on construction and development activities | 787 |
| | Taxable construction profit not yet brought to account | 1,410 |
| | Tax losses carried forward | 2,306 |
| | | 4,884 |
| | <i>Future income tax benefit not taken to account</i> | |
| | Future income tax benefit not recognised in the current year comprises the estimated future benefit, at the applicable rate of 30% on the following items: | |
| | Provisions and accruals not currently deductible | – |
| | Tax losses carried forward | – |
| | | – |
| 10 | Payables | |
| | Current | |
| | Trade creditors | 4,650 |
| | Retentions withheld | 726 |
| | Related party loans owing | – |
| | Other creditors and accruals | 973 |
| | | 6,349 |

Notes to the pro forma consolidated financial information

| | | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|----|--|--|---|
| 11 | Interest-bearing liabilities | | |
| | Current | | |
| | Bank loans – secured | 58,251 | 58,251 |
| | Loan from related party | 500 | – |
| | | 58,751 | 58,251 |
| | Financing arrangements | | |
| | The Company has access to the following lines of credit: | | |
| | <i>Total facilities available:</i> | | |
| | | Note | |
| | Bank loans | 6,000 | 6,000 |
| | Project funding facilities | 53,780 | 53,780 |
| | Loan from related party | (a) | 2,950 |
| | Other loans | 5,500 | 5,500 |
| | | 68,230 | 68,230 |
| | <i>Facilities utilised at balance date:</i> | | |
| | Bank loans | 5,542 | 5,542 |
| | Project funding facilities | 47,209 | 47,209 |
| | Loan from related party | (a) | 500 |
| | Other loans | 5,500 | 5,500 |
| | | 58,751 | 58,251 |
| | <i>Facilities not utilised at balance date:</i> | | |
| | Bank loans | 458 | 458 |
| | Project funding facilities | 6,571 | 6,571 |
| | Loan from related party | (a) | 2,450 |
| | Other loans | – | – |
| | | 9,479 | 9,979 |

Pro forma adjustment

(a) The repayment of the Holus Nominees Pty Limited loan of \$0.5 million reduces the 'loan from related party' balance.

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 \$5,542,339 are secured by first ranking charges over all the assets and undertakings of the Company, APN DD and APN FM and controlled entities. APN FM's liability under the charge is limited to prevent APN FM breaching the \$5 million net tangible assets requirement under its Australian Financial Services Licence.

A bank loan amounting to \$59,000,000 is secured in full by a registered mortgage over the development property the subject of the 380-390 La Trobe Street 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. This includes development property inventories amounting to \$40,100,000 for which the bank loan is mortgaged against. The controlled entity's liability in respect of the loan is \$29,500,000.

11 Interest-bearing liabilities continued

Bank loans totalling \$47,208,160 (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 DD, a controlled entity;
- first ranking charges over assets and undertakings of the specific controlled entity undertaking each project; and
- registered charges over the shares that APN DD holds in 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 \$500,000 (drawn against a \$2,950,000 facility) are secured by a floating charge over all the Company's assets.

Project specific securities

Term deposits of \$3,385,000 have been provided as project specific security as follows:

- \$385,000 in favour of Multiplex Limited has been provided as security for additional works being undertaken as part of the Signature Building development project by a controlled entity.
- \$1,000,000 in favour of Capital Finance Australia Limited (CFAL) and Babcock & Brown Real Estate Finance Pty Limited has been provided as security for funding the 16 Liverpool Street project undertaken by a controlled entity.
- \$2,000,000 in favour of Westpac Banking Corporation has been provided as security for funding the 380-390 La Trobe Street project undertaken by a controlled entity in the joint venture.

A controlled entity of the Company has provided a bank guarantee of \$7,200,000 to finance the purchase of land and buildings. The bank guarantee is secured by cash deposits provided by Holus Nominees Pty Limited and Melbourne Square Pty Limited, director related entities.

Other

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

| | | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|----|---|--|---|
| 12 | Current tax liabilities | | |
| | <i>Provision for current income tax</i> | | |
| | Income tax payable | 284 | 284 |
| 13 | Provisions | | |
| | Current | | |
| | Dividends | 5,400 | – |
| | Employee entitlements | 205 | 205 |
| | Redundancy provision | 750 | 750 |
| | | 6,355 | 955 |
| | Non-current | | |
| | Employee entitlements | 48 | 48 |

Pro forma adjustment

(a) The planned payment of the \$5.4 million APN DD dividend declared is adjusted against the dividends balance.

Notes to the pro forma consolidated financial information

| | | Actual Consolidated 31 Dec 2004 \$000 | Pro forma consolidated 31 Dec 2004 \$000 |
|----|---|---|--|
| 14 | Deferred tax liabilities | | |
| | <i>Provision for deferred income tax</i> | | |
| | 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 | 3,624 |
| | Prepayments | – | – |
| | | 3,624 | 3,624 |
| | | | |
| | | Pro forma No. of shares '000 | Pro forma \$000 |
| 15 | Contributed equity | | |
| | Issued and paid-up share capital | Note | |
| | 30,840,386 (2003: Nil) ordinary shares, fully paid; 115,049,000 pro forma | (a) | 30,840 44,205 |
| | 3,767,000 (2003: Nil) 'A' class redeemable preference shares, fully paid; nil pro forma | (b) | 3,767 – |
| | 487,500 (2003: Nil) 'B' class redeemable preference shares, fully paid; nil pro forma | (c) | 488 – |
| | | | 35,095 44,205 |
| | <i>Pro forma adjustments</i> | | |
| | (a) Ordinary shares, fully paid | | |
| | Actual balance of ordinary shares, fully paid at 31 December 2004 | 30,840 | 30,840 |
| | Share split to take ordinary shares on issue to 100,000,000 | 69,160 | – |
| | Issue of 31,000,000 ordinary shares including 645,000 shares to employees under the Employee Purchase Offer | 31,000 | 31,000 |
| | Issue of 49,000 ordinary shares under the Employee Gift Offer | 49 | – |
| | Issue costs offset against contributed equity | – | (1,635) |
| | Buy-back of 16,000,000 ordinary shares | (16,000) | (16,000) |
| | Pro forma balance of ordinary shares, fully paid at 31 December 2004 | 115,049 | 44,205 |
| | The Offer will lead to the issue of 31,000,000 Shares at \$1 each (including 645,000 Shares issued to employees under the Employee Purchase Offer funded by a loan from the Company) in addition to 49,000 Shares gifted to employees under the Employee Gift Offer, offset by \$1,635,000 estimated costs of raising equity resulting in net equity of \$29,365,000. | | |
| | (b) 'A' class redeemable preference shares, fully paid | | |
| | Actual balance of 'A' class redeemable preference shares at 31 December 2004 | 3,767 | 3,767 |
| | Buy-back of 'A' class redeemable preference shares at 31 December 2004 | (3,767) | (3,767) |
| | Pro forma balance of 'A' class redeemable preference shares at 31 December 2004 | – | – |
| | (c) 'B' class redeemable preference shares, fully paid | | |
| | Actual balance of 'B' class redeemable preference shares at 31 December 2004 | 488 | 488 |
| | Buy-back of 'B' class redeemable preference shares at 31 December 2004 | (488) | (488) |
| | Pro forma balance of 'B' class redeemable preference shares at 31 December 2004 | – | – |

15 Contributed equity continued

The Buy-back of ordinary shares will result in a payment of \$16,000,000 (16,000,000 ordinary shares at \$1 each). A preference share redemption will result in a payment of \$4,254,500 to preference shareholders (\$3,767,000 million in 'A' class redeemable preference shares, fully paid and \$487,500 in 'B' class redeemable preference shares, fully paid).

16 Contingent liabilities

- (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 office worker. The Company is of the opinion that this claim falls within the ambit of the relevant Contract Works and Liability insurance policy.
- (b) The consolidated entity holds an interest of 50% in the output of an unincorporated joint venture operation, the principal activity of which is the construction, development and subsequent sale of the development property at 380-390 La Trobe Street, Melbourne Victoria. 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. This amount cannot be reliably measured, as the development has not been sold.
- (c) Under a design and construction contract entered into by a subsidiary of the consolidated entity in relation to the Emmy Monash project, 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.
- (d) Trust Company of Australia Limited as custodian for APN FM, in its capacity as responsible entity, 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 effected when APN FM was appointed as trustee for the National Storage Victorian Property Trust, a related trust managed by APN FM. The financial impact on the consolidated entity is limited to the extent that APN FM has entered into a deed of indemnity with National Storage (Operations) Pty Limited whereby it agreed to indemnify APN FM 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. Also under the constitution of the fund, APN FM has a right to be indemnified out of the funds of the APN National Storage Property Trust. Refer to section 11.12(a)(ii) for more detail.
- (e) A number of wholly owned subsidiaries of APN No 16 Pty Limited (APN 16) (itself a wholly owned subsidiary incorporated after 31 December 2004) have entered into co-venture arrangements in respect of new property development projects in Yatala, Queensland, Coolum, Queensland and Fullerton Cove, New South Wales (the APN Development Fund No. 1 projects). The National Australia Bank (NAB) has provided APN 16 with a facility with a limit of \$16,750,000 (NAB Facility). To secure the facility, APN 16 charged all its assets in favour of NAB and all of the shares in APN 16 have been mortgaged in favour of NAB. It is proposed that APN FM as the responsible entity for the APN Development Fund No. 1 will, subject to raising the necessary funds and obtaining investment committee approval, purchase the shares in APN 16 and therefore acquire APN 16's interest in the APN Development Fund No. 1 projects.

A finance tripartite deed was entered into by all parties involved in the APN Development Fund No. 1 projects, the Company, Permanent Trustee Company Limited and NAB on 7 March 2005. Under the terms of the tripartite deed, if APN 16 is in default under the co-venture deeds for any of the APN Development Fund No. 1 projects, the NAB Facility, the deed of charge or the share mortgage, the NAB can oblige a third party (unrelated to the Company) to repay the NAB Facility and acquire APN 16's interest in the projects.

Notes to the pro forma consolidated financial information

16 Contingent liabilities continued

Further, if APN FM (as responsible entity for the APN Development Fund No.1) has not raised \$60 million before 22 July 2005, the NAB can oblige the third party to repay the NAB Facility and take over APN 16's interests in the projects. APN 16 may, in the event APN FM does not raise \$60 million by 29 June 2005, oblige the third party to take over its interest in the projects.

As described above, it is proposed that APN FM (as responsible entity for the APN Development Fund No.1) will take over APN 16's interests in the APN Development Fund No. 1 projects and will therefore accept the obligations discussed above.

If the NAB Facility is not repaid, the Company will lose control of APN 16 and its interest in the APN Development Fund No. 1 projects, but it will not be liable for the NAB Facility.

- (f) 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 DD guarantees the obligations of a controlled entity as landlord of the Signature Building, with the guarantee being limited to the lesser of \$1,800,000 or the actual damage sustained by Bendigo Bank Limited as tenant.

In the event that it takes the 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.

- (g) A controlled entity holds a 50% interest in the 380-390 La Trobe Street unincorporated 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 responsible of repayment of this debt is with the controlled entity.

17 Directors' disclosures

Directors' remuneration

The names of each person holding the position of director of APN Property Group Limited during the financial period are Messrs Christopher Aylward, Andrew Cruickshank, Adam Grollo, Howard Brenchley and Clive Appleton. Adam Grollo resigned as director of the Company and controlled entities on 22 April 2005.

Directors' income

Consolidated 6 months to
31 December 2004
Number

The number of Directors whose income from the Company or any related party falls within the following bands:

| | |
|-----------------------|---|
| \$0 – \$9,999 | 1 |
| \$110,000 – \$119,999 | 2 |
| \$200,000 – \$209,999 | 2 |

Consolidated 6 months to
31 December 2004
\$000

| | |
|---|-----|
| Total income paid or payable, or otherwise made available, to all Directors from the Company or any related party | 634 |
|---|-----|

Director-related parties

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 31 December 2004.

On acquisition, the Company acquired loans totalling \$2,232,715 payable to Holus Nominees Pty Limited, a director related entity, by a subsidiary, APN DD. During the period to 31 December 2004 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 is repayable on demand.

During the period to 31 December 2004, loans of \$2,382,715 were repaid by APN DD to Holus Nominees Pty Limited. The balance outstanding at the end of the period was \$500,000. Interest on the loan was \$17,398, of which \$2,774 is outstanding as at 31 December 2004.

During the period to 31 December 2004, the Company made loans totalling \$3,589,578 to directors. The recipients of the loans were Lesinca Pty Limited, a director related entity, and Adam Grollo. The loans were made to the directors to enable the purchase of Shares in the Company. The loan to Lesinca Pty Limited is non-interest bearing and limited recourse, and the loan to Adam Grollo is interest bearing and repayable within seven years. The shares are held by APN Property Group Nominees Pty Limited in its capacity as trustee of the Clive Appleton Share Trust and the APN Property Group Employee Share Purchase Plan, in which Clive Appleton and Adam Grollo have beneficial interests respectively (see section 11.9(b) and (d)).

During the period to 31 December 2004, APN FM purchased \$7,319 of printing and design services from Stargoal Pty Ltd, a director related entity, on normal commercial terms and conditions.

Other related party transactions

During the period to 31 December 2004, a controlled entity, APN FM, received a fee of \$1,481,397 from APN Regional Property Fund for its assistance with due diligence, prospectus preparation and the co-ordination of property acquisitions.

APN FM receives management fees for managing the APN Property For Income Fund, APN Retirement Properties Fund, APN National Storage Property Trust, APN Property Plus Portfolio Fund, APN Regional Property Fund and APN International Property for Income Fund. Management fees received during the period were \$4,101,326. In addition administration fees were \$264,694 for the provision of accounting, registry and customer service related services to the funds it manages.

Investments

At 31 December 2004, APN FM held investments in the following funds, which it manages:

| | Units 2004 No. | Distributions cents per unit 2004 |
|--|----------------------|---|
| APN Property for Income Fund | 78 | 11.25 |
| APN Property Plus Portfolio | 100 | 4.35 |
| APN International Property for Income Fund | 100 | 1.58 |
| APN National Storage Property Trust | 100 | 4.60 |

Notes to the pro forma consolidated financial information

17 Directors' disclosures continued

Receivables

Management fees receivable amounted to \$3,986,242 and other recoverables due to APN FM from the funds it manages amounted to \$79,420 at 31 December 2004.

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

Directors' holdings of shares

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at 31 December 2004 are set out below.

| | Consolidated at 31 December 2004 Number held |
|--|--|
| APN Property Group Limited: | |
| Ordinary shares (pre share sub-division) | 30,840,386 |
| Class A Preference shares | 3,767,000 |
| Class B Preference shares | 487,500 |

Directors' transactions in shares and share options

During the period to 31 December 2004, the Company issued 30,840,386 ordinary shares (pre share sub-division), 4,620,000 Class A Preference and 487,500 Class B Preference shares to the directors and their director-related entities.

On 9 November 2004, the Company completed the buy-back of 853,000 A Class Redeemable Preference shares 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.

Directors' transactions with the Company or its controlled entities

During the period to 31 December 2004, 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. Interest on the cash deposits outstanding as at the end of the period is charged at a rate of 6% above the prevailing cash rate. Interest is accruing on a daily basis and is payable monthly and amounted to \$142,790. Interest accrued on the guarantees at 31 December 2004 was \$36,719.

The Company has provided Christopher Aylward and Andrew Cruickshank with leased 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.

Non-director-related parties

The classes of non-director-related parties include wholly-owned controlled entities, directors of related parties and their director-related entities.

Our brand of **property** investment



SECTION 9

Investigating Accountant's Report



KPMG Transaction Services (Australia) Pty Limited

Australian Financial Services Licence No. 245402
161 Collins Street
Melbourne Vic 3000

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Melbourne Vic 3001
Australia

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FINANCIAL SERVICES GUIDE AND INVESTIGATING ACCOUNTANT'S REPORT

This report is in two parts ("**Report**"):

- Part 1 is the KPMG Transaction Services (Australia) Pty Limited Financial Services Guide ("FSG") which we are required to provide to you under section 941A of the Corporations Act 2001; and
- Part 2 is the Investigating Accountant's Report.

The Financial Services Guide should be read prior to the Investigating Accountant's Report.

Part 1 - FINANCIAL SERVICES GUIDE

Dated 6 May 2005

KPMG Transaction Services

KPMG Transaction Services (Australia) Pty Limited ABN 65 003 891 718 ("KPMG Transaction Services" or "we" or "us" or "ours" as appropriate) holds an Australian Financial Services Licence ("AFSL") issued by the Australian Securities and Investment Commission on 11 March 2004. Our AFSL number is 245402.

We have been engaged by APN Property Group Limited to issue general financial product advice, about APN Property Group Limited's financial products, in the form of an Investigating Accountant's Report to be provided to you. We are required to include this FSG in our Report because we have authorised the product issuer to include our Investigating Accountant's Report in the Prospectus for APN Property Group Limited's financial products.

Purpose of the FSG

The purpose of this FSG is to:

- **help you decide whether to consider the Investigating Accountant's Report;**
- **contain information about remuneration to be paid to us in relation to the Investigating Accountant's Report;**
- **contain information on the financial services we are authorised to provide under our AFSL; and**
- **contain information on how you can complain against us.**

Financial services we are licensed to provide

Our AFSL authorises us to provide financial product advice in relation to interests in managed investment schemes (excluding investor directed portfolio services) and securities (such as shares and debentures) to wholesale and retail clients.

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



General Financial Product Advice

In the Investigating Accountant's Report, we provide general financial product advice, not personal financial product advice. It has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on any advice contained in the Investigating Accountant's Report.

Fees, commissions and other benefits

We charge fees for providing reports. These fees are agreed with, and paid by, the product issuer. Fees are agreed on either a fixed fee or a time cost basis. In this instance, APN Property Group Limited has agreed to pay us \$150,000 for providing the Investigating Accountant's Report.

Except for the fees referred to above, neither KPMG Transaction Services, nor its representative, or any of its employees, involved in the provision of the report, receive any pecuniary or other benefits, directly or indirectly, for or in connection with, the provision of the Investigating Accountant's Report.

All our employees receive a salary and our directors or employees may receive partnership distributions from KPMG or bonuses based on overall productivity, but not directly in connection with any engagement for the provision of a report.

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures, KPMG Transaction Services is ultimately wholly owned by, and operates as part of, KPMG's Australian professional advisory and accounting practice. Our directors may be partners in KPMG's Australian partnership. From time to time KPMG Transaction Services or KPMG and/or KPMG related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints

If you have a complaint, please raise it with us. All complaints must be in writing, addressed to The Complaints Officer, KPMG Transaction Services, PO Box H67, Australia Square, Sydney NSW 1213. When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.



If you are not satisfied with the outcome of the above process, or our determination, you have the right to refer the matter to the Financial Industry Complaints Service Limited (“FICS”). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry. Further details about FICS are available at the FICS website: www.fics.asn.au. FICS can also be contacted by telephone on 1300 78 08 08.

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.



KPMG Transaction Services (Australia) Pty Limited
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PART 2 – INVESTIGATING ACCOUNTANT’S REPORT

The Directors
APN Property Group Limited
Level 32, 101 Collins Street
Melbourne VIC 3000

6 May 2005

Dear Sirs

Investigating Accountant’s Report

Introduction

KPMG Transaction Services (Australia) Pty Limited (“KPMG Transaction Services”) has been engaged by APN Property Group Limited (“APN Property Group”) to prepare this report for inclusion in the Prospectus to be dated 6 May 2005, and to be issued by APN Property Group, in respect of the proposed underwritten issue of 31 million Shares in APN at \$1.00 per share.

Expressions defined in the Prospectus have the same meaning in this report.

Financial information

KPMG Transaction Services has been requested to prepare a report covering:

- the historical, pro forma historical and forecast financial information; and
- the information on, and quantification of, the differences, between the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, effective as at the date of this report, and those prescribed in the Australian equivalents of International Financial Reporting Standards (“AIFRS”), effective for the reporting period ending 30 June 2006, relevant to APN Property Group (“reconciliations to AIFRS”).

described below and disclosed in the Prospectus.

Historical financial information

The historical financial information, as set out in section 8.7 and the Appendix to section 8 of the Prospectus, comprises the:

- audited statement of financial position of APN Property Group as at 31 December 2004; and
- notes to the financial statements.

The historical financial information set out in section 8.7 and the Appendix to section 8 of the Prospectus has been extracted from the audited financial statements of APN for the six months ended 31 December 2004.



The financial statements of APN Property Group for this period were audited by KPMG in accordance with Australian Auditing Standards. The audit opinion issued to the members of APN Property Group relating to those financial statements was unqualified.

The directors of APN Property Group are responsible for the preparation and presentation of the historical financial information.

The historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001 ("Corporations Act").

Pro forma historical financial information

The pro forma historical financial information, as set out in sections 8.1, 8.3 and 8.7 and the Appendix to section 8 of the Prospectus, comprises the pro forma, unaudited:

- statements of financial performance of APN Property Group for the years ended 30 June 2003 and 30 June 2004;
- statement of financial position of APN Property Group as at 31 December 2004; and
- notes to the pro forma, unaudited financial statements.

The pro forma historical financial information has been derived from the historical financial information of APN Development and Delivery Pty Limited (previously known as Australian Property Network Pty Limited) (APN DD) and APN Funds Management Limited (APN FM) for the years ended 30 June 2003 and 30 June 2004 after adjusting for the pro forma transactions and/or adjustments described in sections 8.2, 8.3 and 8.7 of the Prospectus.

The audit report issued by KPMG in relation to APN DD for the year ended 30 June 2003 contained the following qualification in respect of the opening balance sheet not being audited:

"The financial report for the year ended 30 June 2002 has not been audited. We have been unable to obtain sufficient appropriate audit evidence to enable us to form an opinion on the comparatives for 30 June 2002. Accordingly, we are not in a position to and do not express an opinion on the comparative balances for both the Company and the consolidated entity. The results of the Company and the consolidated entity for the year ended 30 June 2003 would be effected to the extent of any misstatement of financial information in the 30 June 2002 financial report."

The directors of APN Property Group are responsible for the preparation and presentation of the pro forma historical financial information, including the determination of the pro forma transactions and/or adjustments.

The pro forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.



Forecast financial information

The directors' forecast is set out in sections 8.1 and 8.4 of the Prospectus and comprises the forecast financial performance and cash flows of APN Property Group for the years ending 30 June 2005 and 30 June 2006.

The directors of APN Property Group are responsible for the preparation and presentation of the directors' forecast, including the best-estimate assumptions on which the directors' forecast is based and the sensitivity of the directors' forecast to changes in key assumptions.

The directors' forecast has been prepared by the directors to provide investors with a guide to APN Property Group's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. The directors' best-estimate assumptions underlying the directors' forecast are set out in section 8.5 of the Prospectus.

There is a considerable degree of judgement involved in the preparation of any forecast. Consequently, the actual results of APN Property Group during the forecast period may vary materially from the directors' forecast, and that variation may be materially positive or negative.

The sensitivity of the directors' forecast to changes in key assumptions is set out in section 8.6 of the Prospectus and the risks to which the business of APN Property Group is exposed are set out in section 10 of the Prospectus. Investors should consider the directors' forecast in conjunction with the analysis in those sections.

The directors' forecast is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Reconciliations to AIFRS

The reconciliations to AIFRS, contained in section 8.8 of the Prospectus, comprise reconciliations between the equivalent financial information prepared in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and under AIFRS to provide an indication of the impact of AIFRS in respect of:

- the forecast statements of financial performance of APN Property Group for the years ending 30 June 2005 and 30 June 2006; and
- the pro forma unaudited statement of financial position of APN Property Group as at 31 December 2004.

The directors of APN Property Group are responsible for the preparation and presentation of the reconciliations to AIFRS. The directors' assumptions underlying the reconciliations are set out in section 8.8 of the Prospectus. There is a considerable degree of judgement involved in the preparation of the reconciliations to AIFRS. Consequently, the reconciliations to AIFRS presented in the first complete financial report prepared in accordance with AIFRS, for the



reporting period ending 30 June 2006, may vary materially from the reconciliations to AIFRS, presented in section 8.8 of the Prospectus and that variation may be materially positive or negative.

Scope

Review of historical financial information

We have reviewed the historical financial information in order to report whether anything has come to our attention which causes us to believe that the historical financial information, as set out in section 8.7 and the Appendix to section 8 of the Prospectus, does not present fairly:

- the historical statement of financial position of APN Property Group as at 31 December 2004,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by APN Property Group and disclosed in Note 1 of the Appendix to section 8 of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- analytical procedures on the historical financial information;
- a review of work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus; and
- enquiry of directors, management and others.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review of pro forma historical financial information

We have reviewed the pro forma historical financial information in order to report whether anything has come to our attention which causes us to believe that the pro forma historical financial information, as set out in section 8.1, 8.3 and 8.7 and the Appendix to section 8 of the Prospectus, has not been presented fairly:

- on the basis of the pro forma transactions and/or adjustments; and
- in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and



accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- a review of the pro forma transactions and/or adjustments made to the historical financial information;
- a review of work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus; and
- enquiry of directors, management and others.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review of directors’ forecast and directors’ best-estimate assumptions

We have reviewed the directors’ forecast, set out in sections 8.1 and 8.4 of the Prospectus, and the directors’ best-estimate assumptions underlying the directors’ forecast, set out in section 8.5 of the Prospectus, in order to report whether anything has come to our attention which causes us to believe that:

- the directors’ best-estimate assumptions, when taken as a whole, do not provide reasonable grounds for the preparation of the directors’ forecast;
- the directors’ forecast is not properly compiled on the basis of the directors’ best-estimate assumptions or presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus; and
- the directors’ forecast itself is unreasonable.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary.

Our review of the directors’ forecast and the directors’ best-estimate assumptions is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the directors’ forecast or the directors’ best-estimate assumptions.



Review of reconciliations to AIFRS

We have reviewed the reconciliation to AIFRS, contained in section 8.8 of the Prospectus, in order to state whether anything has come to our attention which causes us to believe that the reconciliations to AIFRS do not present fairly the differences, between the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, effective as at the date of this report, and those prescribed in AIFRS, relevant to APN Property Group.

Qualification

The APN DD financial report for the year ended 30 June 2002 was not subject to an audit. The APN DD financial report for the year ended 30 June 2003 was qualified as the auditors were unable to obtain sufficient appropriate audit evidence to enable them to form an opinion on the results of the Company and consolidated entity for the year ended 30 June 2003. Accordingly, we are not in a position to and do not express a review opinion on the pro forma results of APN Property Group for the year ended 30 June 2003. The results of APN Property Group would be effected to the extent of any misstatement of financial information in the APN DD 30 June 2002 financial report.

Review statements

Review statement on the historical financial information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the historical financial information, as set out in section 8.7 and the Appendix to section 8 of the Prospectus, does not present fairly:

- the historical statement of financial position of APN Property Group as at 31 December 2004,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus.

Qualified review statement on the pro forma historical financial information

Based on our review, which is not an audit, except for the effect of the matters described in the qualification paragraph above, nothing has come to our attention which causes us to believe that the pro forma historical financial information, as set out in sections 8.1, 8.3 and 8.7 and the Appendix to section 8 of the Prospectus, has not been presented fairly:

- on the basis of the pro forma transactions and/or adjustments; and
- in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus.



Review statement on the directors' forecast and the directors' best-estimate assumptions

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions, set out in section 8.5 of the Prospectus, when taken as a whole, do not provide reasonable grounds for the preparation of the directors' forecast;
- the directors' forecast, set out in section 8.1 and 8.4 of the Prospectus, is not properly compiled on the basis of the directors' best-estimate assumptions or presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by APN Property Group disclosed in Note 1 of the Appendix to section 8 of the Prospectus; and
- the directors' forecast itself is unreasonable.

The underlying assumptions are subject to significant uncertainties and contingencies, often outside the control of APN Property Group. If events do not occur as assumed, actual results achieved by APN Property Group may vary significantly from the directors' forecast. Accordingly, we do not confirm or guarantee the achievement of the directors' forecast, as future events, by their very nature, are not capable of independent substantiation.

Review statement on the reconciliations to AIFRS

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the reconciliations to AIFRS do not present fairly the differences, between the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia effective as at the date of this report, and those prescribed in AIFRS, relevant to APN Property Group.

Emphasis of matter in relation to the reconciliations to AIFRS

Without qualification to the above statement, attention is drawn to the fact that adjustments to the selection and application of AIFRS accounting policies may be necessary between the date of this report and the date of APN Property Group's first complete AIFRS financial report for the reporting period ending 30 June 2006. Such adjustments may be required to reflect the effects of changes in financial reporting requirements that are relevant to APN Property Group's first complete AIFRS financial report arising from new or revised standards or interpretations issued by the Australian Accounting Standards Board subsequent to the date of this report. Adjustments to the application of AIFRS and accounting policies may also be necessary to reflect the effects of changes to APN Property Group's operations, or additional guidance on the application of AIFRS in a particular industry, or to a particular transaction.

Independence

KPMG Transaction Services does not have any interest in the outcome of this issue, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of APN Property



Group and from time to time, KPMG also provides APN Property Group with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Yours faithfully

A handwritten signature in black ink, appearing to read 'JJ O'Connell'.

JJ O'Connell
Director

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SECTION 10

Risk Factors

SECTION 10

Risk Factors

Prospective investors should consider the risks involved in investing in securities generally and, in particular, the Shares to be issued under this Prospectus. Investors should seek advice from their stockbroker, financial adviser or other professional adviser.

The risks involved in investing in the Shares include, but are not limited to, the following:

10.1 General risk factors

(a) Changes to economic conditions

Movements in Australian and international stock markets, changes in interest rates, inflation and inflationary expectations and overall economic and political conditions may affect the demand for, and price of, the Shares. Investors should be aware that there are risks associated with any investment in securities and that the prices of securities can go down as well as up.

(b) Impact of hostilities, terrorism or other force majeure events

War, other hostilities, terrorism or major catastrophes can adversely affect global and Australian market conditions. Such events can have direct and indirect impacts on the Company's business and earnings.

10.2 Industry specific risk factors

(a) Changes in regulation and legislation

The businesses carried on by the Company (particularly the APN FM funds management business) are subject to extensive legislation, regulation and supervision as summarised in section 11.11(a). Changes in government legislation and policy in those jurisdictions in which the Company operates may affect future earnings and operations. For example, changes in stamp duty legislation and regulation, and how stamp duty legislation and regulation is interpreted by state revenue offices, may affect the Company's performance.

(b) Property sector performance

Deterioration in investment market conditions in the property sector could adversely impact the Company's earnings through directly reducing the value of existing assets under management by APN FM and through reducing the attractiveness of the property sector to retail investors

(c) Changes in stock market rating of the Shares

There is the risk that the stock market rating of the Shares may change relative to other quoted securities, especially as a result of changes in market sentiment toward the funds management sector. Changes in the stock market rating may affect the demand for, and the price of, the Shares.

10.3 Company specific risk factors

(a) Reliance on key personnel

The Company's performance is dependent on the efforts and abilities of its executive team and senior management. Loss of key personnel may adversely affect the business performance of the Company, the valuation of the Company's business or the Company's Share price. Since 2001 there has been no loss of key personnel from the APN FM investment management team. In addition, the Company has sought to enhance the retention of its key employees through participation in the Employee Purchase Offer.

(b) Assets under management

As the majority of the Company's income is derived as fees related to the management of the funds under the control of APN FM, the investment performance of these funds is important to the ongoing earnings of the Company. Significant or prolonged underperformance could have an impact on the Company's financial performance. See section 4.3(a) for a discussion of APN FM's growth in assets under management.

(c) Distribution relationships

The Company has a number of important relationships with entities that distribute products to retail investors. Disruption of these relationships could adversely impact the Company's business. See section 4.3(c)(iii) for a discussion of APN FM's distribution relationships.

(d) Reputation

Any damage to the reputation of the Company or its brand could have a material adverse impact on its business.

(e) Litigation and legal action

The Company and other members of the Group may be exposed to potential litigation from investors, regulators, employees, business associates and companies. To the extent that these risks are not covered by insurance policies, litigation or the cost of responding to actual or potential litigation could have a material adverse impact on the Company's financial position and earnings and the Share price. See section 11.12(a) for a discussion of outstanding litigation.

(f) Loss of lease income within funds under management

The direct property funds that APN FM manages have exposure to a variety of entities that lease or otherwise occupy the properties owned by these funds. A default by a major lessee or across a number of leases, or failure to secure new leases on acceptable terms, could give rise to earnings volatility within these funds and negatively impact the Company's business.

(g) Technical failure

The Company relies on its information technology and telecommunication systems for its businesses to operate efficiently. Failure in these systems, lack of system capacity, inappropriate or unauthorised access and unsuccessful systems integration are all risks to the Company's business operations.

(h) Investment risk

Through its proposed investment in the APN Development Fund No. 1, the Company will have direct exposure to the performance of the developments undertaken by the fund. Development risks, including industrial disputes, inclement weather, supply shortages and construction difficulty, may impact the returns of this fund. Additionally there is the risk that an appropriate exit may not be available for the properties developed by the fund. Less than expected returns from this fund may adversely affect the earnings of the Company.

(i) Construction risk

Each construction project (the APN DD legacy projects – see section 4.4.(a)) is unique and there are various factors that may affect the outcome, such as costs, revenue projections and completion time. Investors should be aware that these factors may have an impact on the Company's financial performance.

(j) Accounting standards

The distributable profits of the Company are subject to the determination of profit under applicable accounting standards. Changes in accounting standards or interpretation of existing accounting standards may impact on the Company's earnings and in turn its capacity to pay dividends.

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SECTION 11

Additional Information

SECTION 11

Additional Information

11.1 Incorporation

The Company was incorporated in Victoria on 1 July 2004. The APN Property Group was formed on 10 September 2004 when:

- (a) all of the shareholders in APN DD transferred all of their shares to the Company in exchange for the Company issuing Shares in itself to the shareholders; and
- (b) all of the shareholders in APN FM transferred all their shares to the Company in exchange for the Company issuing Shares in itself to the shareholders.

As a result, both APN DD and APN FM became wholly owned subsidiaries of the Company.

11.2 Share Capital

On 28 April 2005, the Existing Shareholders resolved to subdivide the then 38,840,386 Shares on issue into 100,000,000 Shares. The subdivision did not change any of the Existing Shareholder's proportionate interest in the Company. Following listing and completion of the Buy-back, it is proposed that the Company will have 115,049,000 Shares on issue.

11.3 Share Buy-back

Subject to the Offer being successful, the Company intends to buy-back Shares from the following Existing Shareholders in consideration of the sum of \$1.00 per Share:

- (a) Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust – 15,000,000 Shares; and
- (b) Howard Brenchley in his capacity as trustee for the Brenchley Family Trust – 1,000,000 Shares.

It is intended that the buy-back be made in accordance with division 2 of Part 2J.1 of the Corporations Act.

The Company has entered into share buy-back agreements with each of the above shareholders (Buy-back Agreement). Pursuant to each Buy-back Agreement, the above shareholders have agreed to sell the ordinary shares specified above to the Company.

The consideration of \$1.00 per share payable to the above shareholders for the buy-back of their shares will be paid on the day after the Company is successfully listed on the ASX. If the listing of the Company does not occur on or before 30 June 2005, the Buy-back Agreements may be terminated.

The Buy-back Agreements contain a number of warranties provided by the above shareholders together with various conditions precedent to the completion of the Buy-back.

The above shareholders have, pursuant to the respective Buy-back Agreement, irrevocably appointed the Company and any officer of the Company to be their attorney to execute and do any things as may be necessary under the Buy-back Agreement. This includes conferring upon the Company all necessary powers to effect the transfer of their shares to the Company.

It is proposed that the shares bought back by the Company will be cancelled as required by the Corporations Act. This will be reflected in the Register.

Under each Buy-back Agreement, Amsil Pty Limited and Howard Brenchley will be reimbursing part of the underwriting fee payable by the Company as follows:

- (a) Amsil Pty Limited – \$375,000; and
- (b) Howard Brenchley – \$25,000.

Following consideration of the Company's current financial situation, and given that the Buy-back will be fully funded from the proceeds of the Offer, the Board considers that:

- (a) the Buy-Back, if completed, will not have any adverse effect on the Company's state of affairs;
- (b) the Company's ability to pay its creditors will not be materially prejudiced by the Buy-back;
- (c) the Company is solvent and will remain so after the Buy-back is completed; and
- (d) the Company's day-to-day operations will not be adversely affected in a material sense by the Buy-back.

11.4 Redemption of redeemable preference shares

Subject to the Offer being successful, the Company also intends to redeem all of the issued redeemable preference shares from the following Existing Shareholders in consideration of the sum of \$1.00 per Share:

- (a) Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust:
 - (i) 3,767,000 redeemable A class preference shares; and
 - (ii) 292,500 redeemable B class preference shares;
- (b) Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust – 97,500 redeemable B class preference shares; and
- (c) Howard Brenchley in his capacity as trustee for the Brenchley Family Trust – 97,500 redeemable B class preference shares.

The consideration of \$1.00 per share payable on redemption will be paid on the day after the Company is successfully listed on the ASX. The redemption will be fully funded from the proceeds of the Offer. Following redemption, the shares will be cancelled and there will be no redeemable preference shares on issue in the Company.

See section 11.6(e) for a summary of the rights attaching to redeemable preference shares.

11.5 APN DD pre-IPO dividend

On 10 September 2004, the then board of APN DD declared a dividend of \$5,399,096 to its then shareholders as follows:

- (a) \$2,294,615.80 to Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust;
- (b) \$2,294,615.80 to Melbourne Light Pty Limited in its capacity as trustee for the Bruno Grollo Family Trust; and
- (c) \$809,864.40 to Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust.

The dividend was payable subject to certain conditions and by no later than 31 December 2006.

It is proposed that the Company will fund the payment of the pre-IPO dividend from the proceeds of the Offer.

11.6 Constitution and rights attaching to Shares

The rights attaching to Shares are:

- set out in the Constitution; and

- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASTC Settlement Rules and the general law.

The Constitution may be inspected during normal business hours at the registered office of the Company. The following is a summary of the material provisions of the Constitution and the rights and restrictions attaching to Shares. This summary is not intended to be exhaustive and is qualified by the full terms of the Constitution.

(a) Voting

Subject to any restriction on voting imposed by the ASX Listing Rules or any escrow agreement entered into between the Company and a shareholder, every shareholder present in person or by proxy or representative at a meeting of shareholders has one vote on a show of hands and one vote on a poll for every Share held. A poll may be demanded by the chairperson of the meeting, at least five shareholders present (or their proxy or representative) or any one or more shareholders holding Shares conferring not less than five percent of the total voting rights of all shareholders having the right to vote on the resolution.

A shareholder is not entitled to vote at any general meeting in respect of Shares held by the shareholder for which calls or other monies are due and payable to the Company at the time of the meeting. The Company must also take no account of votes cast or purported to be cast by members who are excluded from voting in accordance with the Corporations Act or the ASX Listing Rules.

(b) General meetings

Each shareholder is entitled to receive at least 28 days' notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

(c) Dividends

Dividends are payable out of the profits of the Company and are declared by the Directors and may be paid as the Directors see fit. Dividends declared will (subject to any special rights or restrictions attaching to a class of shares) be payable on shares in accordance with the Corporations Act.

(d) Changes to shares and share capital

Subject to the Corporations Act and the ASX Listing Rules, the Company may convert an ordinary share to a preference share, other than to a redeemable preference share, reclassify any shares into classes of shares, cancel any shares and buy-back its own shares.

By ordinary resolution passed at a general meeting of the Company, and subject to the ASX Listing Rules, the Company may convert shares into a larger or smaller number of shares. All ordinary shares must, however, have the same rights and obligations attached to them unless otherwise approved by ASX or permitted by the ASX Listing Rules.

Subject to the Corporations Act, the Company may vary or cancel the rights attaching to any class of shares only if the variation or cancellation is approved by special resolution of each of the shareholders and those shareholders holding shares of the relevant class.

(e) Redeemable preference shares

Subject to the Corporations Act, the Constitution provides that the Company may issue redeemable preference shares. Such shares may be issued as A class or B class preference shares and will have the rights set out in the terms of offer. Preference shares generally will, unless resolved otherwise by a special resolution of shareholders, have the right to a fixed, cumulative preferential dividend in priority to the holders of ordinary Shares.

Subject to part 2H.2 of the Corporations Act and the law generally, a preference share is redeemable and the Company may redeem a preference share at any time by giving the holder the necessary notice. Upon redeeming preference shares, the Company must pay the holder the amount of capital paid on the preference shares and any other amount payable under the terms of offer.

As noted in section 11.4, all of the redeemable preference shares currently on issue will be redeemed from the proceeds of the Offer and cancelled.

(f) Transfer of shares

A shareholder may transfer shares by a proper transfer effected in accordance with the Constitution. The Directors may at any time resolve that the Company participate in the Clearing House Electronic Subregister System (CHESS) for the purpose of facilitating transfers in shares. Shares are transferable by an instrument in writing in any usual or common form or in any other form approved by the Directors. The Directors may refuse to register a transfer of shares, or request ASTC to apply a holding lock to prevent a proper ASTC transfer, where the refusal to register the transfer is permitted under the Constitution, the ASX Listing Rules and the ASTC Settlement Rules.

(g) Issue of shares

The Directors may (subject to the restrictions on the issue of shares imposed by the Constitution, the ASX Listing Rules and the Corporations Act) issue or grant options in respect of, or otherwise dispose of, further shares as the Directors see fit.

(h) Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, on a winding up of the Company a liquidator may, with the authority of a special resolution of the shareholders, divide among the shareholders in specie or in kind the assets of the Company in proportion to the shares held by them respectively. The liquidator may for that purpose set the value he or she considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders.

The liquidator may, with the sanction of a special resolution of the shareholders, vest the whole or any part of the assets in trust for the benefit of shareholders as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

If a division of the Company's assets involves shares that have a liability to a call, the shareholders may direct the liquidator to satisfy the call out of the proportion of assets due to the shareholder and to pay any balance to the shareholder.

(i) Shareholder liability

By a resolution of Directors, calls may be made on a shareholder in respect of any money unpaid on shares of that shareholder if the money is not made payable on fixed terms by the terms of issue of the shares. Directors may also make a call payable by instalments or revoke or postpone a call.

Subject to the Corporations Act and the ASX Listing Rules, if a shareholder fails to comply with a notice in respect of non-payment of a call, any share in respect of which the notice has been given can be forfeited by a resolution of the Directors at any time before the payment required by the notice is received. Notice of the forfeiture must be given to the shareholder immediately before the forfeiture.

Further, subject to the Corporations Act and the ASX Listing Rules, a shareholder whose share has been forfeited ceases to be a shareholder in respect of that share. Despite this, the shareholder remains liable to pay the Company all amounts, including interest, costs and expenses, payable at the date of forfeiture in respect of the share. Directors can cause a forfeited share to be sold, transferred or otherwise disposed of on the terms and in the manner the directors see fit.

(j) Alteration to the Constitution

In accordance with the provisions of the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of the shareholders present and voting at a general meeting. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

(k) ASX Listing Rules

On admission of the Company to the Official List, notwithstanding anything in the Constitution, if the ASX Listing Rules prohibit an act being done the act must not be done. If the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done, and if a provision is required in the Constitution by the ASX Listing Rules the Constitution will be treated as containing that provision. If any provision of the Constitution becomes inconsistent with the ASX Listing Rules, the Constitution will be treated as not containing that provision to the extent of the inconsistency.

(l) Directors

The number of Directors of the Company is to be not less than 3 and no more than 10 unless the shareholders in a general meeting resolve otherwise. Subject to the Corporations Act, the ASX Listing Rules and the Constitution, a Director (other than a Managing Director) must retire from office or seek re-election by no later than the later of the third annual general meeting following his or her appointment, or three years.

A Director is not required to hold any share in the Company.

See section 11.14 for a summary of the provisions of the Constitution relating to Directors' remuneration.

(m) Directors' indemnity

To the extent permitted by law, each director and officer of the Company is indemnified out of the property of the Company for every liability incurred by the person in that capacity and all legal costs incurred in connection with proceedings in which the person becomes involved because of that capacity, except to the extent that:

- (i) the Company is forbidden to do so by; or
- (ii) an indemnity by the Company would, if given, be made void by,

the Corporations Act or any other statute.

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

(n) Non-marketable parcels

Provided that the procedures provided by the Constitution and the ASX Listing Rules are complied with, the Directors may cause the Company to sell a shareholder's shares if that shareholder holds less than a marketable parcel of shares.

(o) Proportional takeover provisions

The Directors must ensure that offers made under a proportional takeover bid pursuant to the Corporations Act are put to a resolution at a meeting of those shareholders who are entitled to vote on such a resolution.

Such a resolution is passed if more than 50% of the votes on the resolution are in favour of the proportional takeover bid. The bidder and any associate of the bidder are excluded from voting on the resolution.

The proportional takeover provisions cease to have effect at the end of three years unless they are renewed in accordance with the Corporations Act.

11.7 Options on Issue

There are no options over securities of the Company on issue.

11.8 Summary of Material Contracts

Various contracts entered into by members of the APN Property Group may be material to the Offer, the operation of the Company or the business of the Group.

The Directors consider the material contracts summarised below are significant or material to the Offer, the Company or the Group (Material Contracts). There may also be other contracts or arrangements discussed elsewhere in this Prospectus that are material to the Offer, the Company or the Group.

The main provisions of these Material Contracts are summarised in this section 11.8. Each Material Contract appears in summary form only and is not fully described. Some items may be defined in the Material Contracts but not defined in this Prospectus.

(a) Underwriting Agreement

The Underwriting Agreement has been entered into between the Company and Grange Securities Limited (the Underwriter).

- (i) Underwriting
Subject to the terms of the Underwriting Agreement, the Underwriter agrees to underwrite the subscription for Shares up to the underwritten amount of \$31 million.

(ii) Fees

The Underwriter will receive an underwriting fee of \$1.55 million (5% of the amount sought to be raised under the Offer). The Company will be reimbursed \$400,000 of this fee (see section 11.3).

If the Company does not proceed with the Offer, the Underwriting Agreement will terminate and the Company must pay the Underwriter a break fee of \$100,000.

The Underwriter will also be reimbursed for all of the reasonable costs, professional fees, and other expenses it incurs in relation to the Offer.

All of the fees, costs, and expenses mentioned above are exclusive of GST.

(iii) Representations and warranties

Under the Underwriting Agreement, the Company gives certain representations and warranties to the Underwriter including (without being exhaustive) that:

- (A) this Prospectus will:
 - (1) comply with all applicable laws;
 - (2) not, to the best of the Company's knowledge and belief, contain a material statement that is false or misleading or one from which there is a material omission; and
 - (3) not, to the best of the Company's knowledge and belief, be misleading or deceptive or likely to mislead or deceive;
- (B) before the expiry of the offer period, the Company will not issue any securities without the prior written consent of the Underwriter;
- (C) all information provided or to be provided to the Underwriter or its advisers in relation to the issue by or on behalf of the Company, is true, complete and accurate in all material respects and the Company has disclosed to the Underwriter in writing all information material to the making of an informed investment decision in relation to the Shares;
- (D) except as disclosed in writing to the Underwriter, no member of Group is involved in any material litigation, arbitration or administrative proceeding nor, so far as the Company is aware, is any litigation, arbitration or administrative proceeding of that type is pending or threatened;
- (E) the Company has full power to issue the Shares and will have obtained all necessary authorisations;
- (F) there is no contract to which a member of the Group is a party which is material to the making of an informed investment decision in relation to the Shares which has not been disclosed; and
- (G) the Company will provide reasonable assistance in connection with the promotion, advertising and marketing of the issue as reasonably required by the Underwriter from time to time so long as such marketing and promotional activity is not in breach of section 734 of the Corporations Act.

The Company also undertakes to the Underwriter that it will notify the Underwriter immediately if it becomes aware of a breach of any representation or warranty set out in the Underwriting Agreement.

(iv) Termination

The Underwriter may terminate the Underwriting Agreement without incurring any liability in various circumstances including if (without being exhaustive):

- (A) any circumstance arises after lodgement of this Prospectus that results in the Company either repaying the money received from Applicants or offering Applicants an opportunity to withdraw their applications for Shares and be repaid their Application Money;
- (B) approval by ASX of the admission of the Company to the official list of ASX and for quotation of the Shares is refused;
- (C) a court or ASIC concludes that this Prospectus does not contain the information required by the Corporations Act;
- (D) a statement contained in this Prospectus is materially misleading or deceptive, or there is a material omission from this Prospectus, or a forecast in this Prospectus becomes incapable of being met or unlikely to be met in the projected time;
- (E) any information supplied by or on behalf of the Company to the Underwriter is materially misleading or deceptive or there is a material omission from it;
- (F) a supplementary or replacement document in relation to the Offer is in the reasonable opinion of the Underwriter required to be lodged;

- (G) without the prior written consent of the Underwriter, any of the Material Contracts is terminated, rescinded, revoked, altered or amended in a material respect,
- (H) any party commits a substantial breach of a Material Contract and that breach is not remedied to the satisfaction of the Underwriter;
- (I) ASIC takes one of various actions under the Corporations Act or the ASIC Act;
- (J) any person who has previously consented to the inclusion of its name in this Prospectus withdraws that consent;
- (K) a representation or warranty made or given under the Underwriting Agreement proves to have been untrue or incorrect in any material respect and the matters rendering the representation or warranty untrue in that respect are not remedied to the satisfaction of the Underwriter;
- (L) the Company fails to perform or observe any of its obligations under the Underwriting Agreement and that failure is not remedied to the satisfaction of the Underwriter;
- (M) a member of the Group contravenes its constitution, the Corporations Act or any other applicable law or regulation and the contravention, if remediable, is not promptly and completely remedied to the satisfaction of the Underwriter;
- (N) a Director ceases to be a Director or is disqualified from managing a corporation;
- (O) * a Director dies, is incapacitated or becomes unable to perform his or her normal or proposed duties at their normal level of activity;
- (P) * legal proceedings are commenced against the Company or any Director and are not struck out or withdrawn on or before the Closing Date;
- (Q) * an event of default occurs in any banking accommodation or financing facility of the Company;
- (R) there is a material adverse change in assets, liabilities, financial position or performance, profits, losses or prospects of the Company and Group from those disclosed in the Prospectus;
- (S) there occurs a new circumstance in relation to the Company or that has arisen since the Prospectus was lodged that would, in the reasonable opinion of the Underwriter, have been required to be included in the Prospectus if it had arisen before the Prospectus was lodged and is not included in a supplementary prospectus;
- (T) any adverse or negative publicity or findings of any kind against either the Company or any of the Directors or officers which, in the Underwriter's opinion, is likely to have a material adverse effect on the Company;
- (U) there is introduced into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a law or any new regulation which reduces the level or likely level of applications;
- (V) * the outbreak of hostilities not at present existing or a major escalation in existing hostilities;
- (W) * there is a suspension or material limitation in trading in securities generally on ASX, the New York Stock Exchange or the London Stock Exchange for more than one day;
- (X) * a general moratorium on commercial banking activities in Australia, the United States of America or the United Kingdom is declared;
- (Y) any material adverse change or disruption to the existing financial markets, political or economic conditions of Australia or one of a number of other countries;
- (Z) before the Closing Date, the All Ordinaries Price Index as calculated by ASX falls by more than 10% below that index as at the close of normal trading on the trading day before the date of the Underwriting Agreement; or
- (AA) before the Closing Date, the S&P/ASX 200 Financials Index or the S&P/ASX 200 Financial-x-Property Trusts Index as calculated by Standard & Poor's falls by more than 10% below that index as at the close of normal trading on the last trading day before the date of the Underwriting Agreement.

The circumstances above marked with an asterisk(*) only entitle the Underwriter to terminate the Underwriting Agreement if the event described:

- (A) makes it impracticable to market the Offer or issue the Shares;
- (B) has, or is likely to have, a material adverse effect on the success of the Offer;
- (C) has given, or is likely to give, rise to a contravention by the Underwriter of the Corporations Act or any other law;
- (D) has given, or is likely to give, rise to a material liability on the part of the Underwriter; or
- (E) will result in the Shares to be issued under the Offer not being quoted.

(v) Indemnities

Subject to certain qualifications relating to misconduct and negligence of the Underwriter, the Company indemnifies the Underwriter and certain persons affiliated with it from losses suffered in connection with the Offer.

(vi) Other

The Underwriting Agreement also contains additional usual contractual provisions that would be expected to be found in an underwriting agreement in like circumstances.

(b) Real Property Lease

APN DD leases the premises occupied by the Company from Commonwealth Funds Management Limited (the Lease).

The Lease commenced on 1 February 2004 and will expire on 31 January 2007. The minimum rent for the first year of the term was \$600 per square metre for the office space and \$300 per square metre for the storage space. For the second year of the term the minimum rent is, subject to certain other provisions, increased by 4% of the minimum rent in the first year of the term. The rent for the third year of the term is, subject to certain other provisions, increased by 4% of the minimum rent in the second year of the term. No further term is provided for in the Lease.

A licence fee of \$445 per vehicle per month is also payable in addition to the minimum rental.

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

No rent is or was payable during the following periods:

- (i) 1 February 2004 to 29 February 2004;
- (ii) 1 February 2005 to 28 February 2005; and
- (iii) 1 February 2006 to 28 February 2006.

All amounts referred to above are GST-exclusive.

(c) APN DD legacy projects

The following is a summary of development and delivery projects currently being undertaken by APN DD and its subsidiaries and the contractual arrangements entered into in respect of such projects:

(i) 380-390 La Trobe Street, Melbourne

The Australian National University (ANU), as registered proprietor, engaged APN No. 6 Pty Limited (APN 6) to develop and construct an office tower at 380-390 La Trobe Street. Practical completion of the works occurred in December 2003.

For accounting purposes, the arrangement has been treated as a joint venture (see note 15(b) of the Appendix to section 8 – Financial Information).

380-390 La Trobe Street is currently occupied by AWB Services Limited (AWB Services) and Ezi Park Pty Limited (Ezi Park). A lease has been entered into by ANU with Cambridge Integrated Services Victoria Pty Limited (Cambridge) and an agreement to lease has been entered into with the Commonwealth of Australia (the Australian Taxation Office) (ATO) for further parts of the premises.

A loan facility in respect of 380-390 La Trobe Street is in place with Westpac Banking Corporation with a facility limit of \$59,000,000. The loan is repayable on 31 December 2006. APN 6's indebtedness is secured by a variety of securities including:

- (A) a mortgage over 380-390 La Trobe Street;
- (B) a bank guarantee of \$2 million from APN DD; and
- (C) a first ranking charge over the assets and undertaking of APN 6.

Under the development agreement between APN 6 and ANU, all rent received from tenants is applied in payment of interest on the loan facility for the development. One-half of the amount by which the interest on the loan facility exceeds the rent received from tenants is payable by each of APN 6 and ANU.

The Company is not a party to the facility and is therefore not liable in respect of it.

APN FM, as responsible entity for underlying APN FM Funds, has offered to acquire an equitable interest in those parts of the property which are, or are shortly to be, leased to AWB Services, Ezi Park and Cambridge. The acquisition will be effected by ANU declaring itself to be trustee over the relevant parts of the property.

APN FM's offer is for \$63 million and is subject to various preconditions and final acceptance by ANU.

(ii) 120 Harbour Esplanade, Docklands, Melbourne (Signature Building)

Victoria Point Docklands Limited (VPDL), as registered proprietor, engaged Multiplex to construct the Signature Building.

APN DD, APN No 12 Pty Limited (APN 12) and RIA Docklands Pty Limited (RIA) entered into an agreement to assist with the Signature Building development, including:

- finding a tenant for;
- procuring a purchaser of; and
- sharing the profits from a sale of,

the Signature Building. Under this agreement, APN 12 and APN DD have a right to purchase the Signature Building.

Bendigo Bank Limited (BBL) agreed to lease the Signature Building for a ten year lease term. Under the agreement to lease, APN DD guarantees the obligations of APN 12 as landlord, with the guarantee being limited to the lesser of \$1,800,000 or the actual damage sustained by BBL.

A deed between APN 12, APN DD, BBL and VPDL is also in place that enables VPDL, in certain circumstances, to step into APN 12's shoes in relation to the agreement for lease and the subsequent lease.

APN 12, acting as agent for APN FM as trustee for the APN Office Fund, has exercised its right to purchase the Signature Building for \$34.7 million (inclusive of a development management fee). It is proposed that the APN Office Fund will be wholly owned by APN FM as responsible entity for the APN Direct Property Fund. A deposit has been paid by APN 12 (by way of provision of bank guarantees secured by term deposits of Holus Nominees Pty Limited and Melbourne Square Pty Limited), with settlement due upon the completion of the Signature Building and registration of a plan of subdivision.

In accordance with various deeds of variation between APN 12 and VPDL, APN 12 has agreed to pay to VPDL at settlement an additional amount of \$5.3 million (inclusive of interest expenses and other costs incurred by VPDL) in respect of variations to the works undertaken in relation to the Signature Building.

(iii) 16 Liverpool Street, Melbourne, Victoria

Collins Street Collaborative Pty Limited (CSC), as registered proprietor, engaged APN No. 10 Pty Limited (APN 10) to develop the property at 16 Liverpool Street. APN 10 engaged APN No. 11 Pty Limited (APN 11) to design and construct the property (the Liverpool Street Building Agreement).

The project has experienced delays and the original completion date has been extended to 30 June 2005.

CSC is seeking to extend the contract of sale sunset date for three apartments whilst APN 10 is negotiating with the financiers to extend the construction facility termination date.

If there is delay in completion of the project, APN 10 will be liable for the cost of any increase in the development expenses occasioned by the delay, including additional interest and holding costs and expenses. If APN 10 does not achieve practical completion by the completion date, CSC may seek to recover its loss from APN 10.

If completion is late and the loan facilities in place in relation to the project are not repaid, the lenders can also exercise various rights, including enforcing the securities provided by APN 10.

Loan facilities for the project are in place with CFAL and Babcock & Brown Real Estate Finance Pty Limited (BBREF).

The facility with CFAL has a limit of \$19,110,000. The loan is repayable on 30 June 2005. A risk fee is also payable. APN 10's indebtedness is secured by a variety of securities including a bank guarantee, two charges (including one supported by a mortgage of the shares held by APN DD in APN 10) and an agreement between CFAL, APN 10 and APN 11.

The facility with BBREF is for the principal amount of \$3.15 million (with interest capitalising). The loan is repayable on 30 June 2005. APN 10's indebtedness is secured by a variety of securities including two charges (one of which is supported by a mortgage of the shares held by APN DD in APN 10).

CFAL and BBREF can, pursuant to the terms of a multi-party deed, exercise "step-in" rights if there is default under the Liverpool Street Building Agreement. This entitles the financiers to assume the rights and obligations of APN 11 as builder. The step-in rights are similar to the rights they could exercise if they appointed a receiver under the charges given by APN 10 and CSC.

The Company is not a party to either the CFAL or BBREF facility agreements and is therefore not liable in respect of either of them.

As at the date of this Prospectus, one retail shop and 68 units have been sold under conventional contracts and 15 units, one retail shop and 28 car parks remain unsold. Renounceable contracts are in place in relation to the unsold units, mitigating the risk associated with the sale of remaining units.

(iv) 518-526 Dandenong Road, North Caulfield, Victoria (Emmy Monash)

Under a design and construction contract between APN No. 15 Pty Limited (APN 15) and Mutual Help Limited (MHL), MHL engaged APN No 15 Pty Limited to design and construct Emmy Monash.

The amount payable to APN 15 for the building works is \$13,815,000 subject to variations in respect of:

- (A) the cost of prime cost items;
- (B) amounts expended in relation to provisional sum items;
- (C) agreed variations; and
- (D) sundry matters.

Five percent of the contract price is held by the owner of the property as security. Half of this amount is to be released on practical completion of the project and the balance at the end of the 52 week defects liability period.

The building works are anticipated to be completed by October 2005. However, APN 15 is entitled to an extension for defined events such as industrial disputes, breach by the owner and other similar occurrences. If APN 15 is late in completing the works, liquidated damages are payable.

An agreement between APN 15, MHL and ANZ has been entered into under which APN 15 agrees not to terminate the contract without notice to ANZ. ANZ can take over MHL's rights and obligations under the design and construct contract in certain circumstances.

(d) APN Development Fund No. 1 projects

Wholly owned subsidiaries of APN No 16 Pty Limited (APN 16) (itself a wholly owned subsidiary of the Company) have entered into co-venture arrangements in respect of new property development projects in Yatala, Queensland and Coolum, Queensland, with it proposed that similar arrangements be entered into in respect of a new property development project in Fullerton Cove, New South Wales (the APN Development Fund No. 1 projects).

It is proposed that APN FM as the responsible entity for the APN Development Fund No. 1 will, subject to raising the necessary funds and obtaining investment committee approval, purchase the shares in APN 16 and therefore acquire APN 16's interest in the APN Development Fund No. 1 projects.

The APN Development Fund No. 1 projects are summarised below:

(i) Yatala, 67 Stanmore Road, Yatala, Queensland

Buildev Properties Pty Limited (Buildev Properties) is the owner of the land at 67 Stanmore Road, Yatala, Queensland.

Under the terms of a co venture deed dated 4 March 2005 between Buildev Yatala Pty Limited, APN No. 17 Pty Limited (APN 17) and Eureka 1 Project 5 Pty Limited (the Yatala Co-Venturers), the Yatala Co-Venturers have agreed to carry out the project and develop the property pursuant to a development deed.

The development management deed is between the Yatala Co-Venturers and Buildev Properties and was also entered into on 4 March 2005. Under the terms of the development management deed, the Yatala Co-Venturers must pay Buildev Properties a development fee in exchange for acquiring broad rights to develop and sell the land and retain the proceeds from such a sale.

A loan agreement was entered into on 4 March 2004 between the Yatala Co-Venturers and Buildev Properties, pursuant to which the Yatala Co-Venturers loaned to Buildev Properties an amount equal to the full development fee. The loan owed by Buildev Properties will be discharged, and the development fee owed by the Yatala Co-Venturers will have been paid in full, by the end of the project.

The Yatala Co-Venturers hold a broad based fixed and floating charge over the assets of Buildev Properties, and their rights are further enhanced by a mortgage over the project land.

(ii) Coolum, Quanda Road, Coolum, Queensland

Coolum Industrial Projects Pty Limited (Coolum Industrial Projects) is the owner of the land at Quanda Road, Coolum, Queensland.

Under the terms of a co venture deed dated 4 March 2005 between Buildev Coolum Pty Limited as trustee of the Buildev Coolum Unit Trust, APN No. 18 Pty Limited (APN 18) and Eureka 1 Project 6 Pty Limited (the Coolum Co-Venturers), the Coolum Co-Venturers have agreed to carry out the project and develop the property pursuant to a development deed.

The development management deed is between the Coolum Co-Venturers and Coolum Industrial Projects and was also entered into on 4 March 2005. Under the terms of the development management deed, the Coolum Co-Venturers must pay Coolum Industrial Projects a development fee in exchange for acquiring broad rights to develop and sell the land and retain the proceeds from such a sale.

A loan agreement was entered into on 4 March 2004 between the Coolum Co-Venturers and Coolum Industrial Projects, pursuant to which the Coolum Co-Venturers loaned to Coolum Industrial Projects an amount equal to the full development fee. The loan owed by Coolum Industrial Projects will be discharged, and the development fee owed by the Coolum Co-Venturers will have been paid in full, by the end of the project.

The Coolum Co-Venturers hold a broad based fixed and floating charge over the assets of Coolum Industrial Projects, and their rights are further enhanced by a mortgage over the project land.

(iii) Riverview Lifestyle Estate, 160 Fullerton Cove Road, Fullerton Cove, NSW

APN DD, through APN No. 19 Pty Limited (APN 19), proposes to enter into similar arrangements in respect of a property at 160 Fullerton Cove Road, Fullerton Cove, New South Wales. As at the date of this Prospectus, agreements are yet to be entered into in respect of the Fullerton Cove property.

The financing arrangements for the APN Development Fund No. 1 projects are summarised as follows:

(i) National Australia Bank facility

The National Australia Bank Limited (NAB) has provided APN 16 with a facility with a limit of \$16,750,000 (NAB Facility).

To secure the facility, APN 16 charged all its assets in favour of the NAB and all of the shares in APN 16 have been mortgaged in favour of the NAB.

A finance tripartite deed has been entered into by all parties involved in the APN Development Fund No. 1 projects, the Company, Permanent Trustee Company Limited and the NAB. Under the terms of the tripartite deed, if APN 16 is in default under the co-venture deeds for any of the APN Development Fund No. 1 projects, the NAB Facility, the deed of charge or the share mortgage, the NAB can oblige a third party (unrelated to the Company) to repay the NAB Facility and acquire APN 16's interest in the projects.

Further, if APN FM (as responsible entity for the APN Development Fund No. 1) has not raised \$60 million before 22 July 2005, the NAB can oblige the third party to repay the NAB Facility and take over APN 16's interests in the projects. APN 16 may, in the event APN FM does not raise \$60 million by 29 June 2005, oblige the third party to take over its interest in the projects.

As described above, it is proposed that APN FM (as responsible entity for the APN Development Fund No. 1) will take over APN 16's interests in the APN Development Fund No. 1 projects and will therefore accept the obligations under the NAB Facility.

If the NAB Facility is not repaid, the Company will lose control of APN 16 and its interest in the APN Development Fund No. 1 projects, but it will not be liable for the NAB Facility.

(ii) Proposed St George facilities

It is proposed that St George Bank Limited (St George) will also provide the co venturers in each of the APN Development Fund No. 1 projects a facility with a limit of \$20 million in respect of each project (the St George Facilities).

To secure the St George Facilities, St George will be granted a fixed and floating charge over the property of the co-venturers in each of the APN Development Fund No. 1 projects. In the event of default under the St George Facilities, St George will have the right to take over the interests of the co venturers as well as the right to sell the land under a first mortgage.

(e) Debt Facilities

The Company has the following debt facilities in place. The facilities are in addition to facilities entered into by members of the APN Property Group in respect of particular funds or projects (a number of which are discussed elsewhere in this Prospectus).

(i) CBA Facility

The Company is indebted to the CBA pursuant to the terms of a CBA Multi Option Facility Agreement (the CBA Facility).

The CBA Facility has a facility limit of \$6,000,000.

Amounts borrowed under the CBA Facility are repayable on 20 September 2005, subject to periodic review or termination of the CBA Facility.

The interest rate and/or fees applicable to the CBA Facility will vary depending on whether the Company draws funds under the bills discount facility, the overdraft facility or the bank guarantee facility.

The Company's indebtedness is secured by first ranking charges over all of the assets and undertaking of:

- (A) the Company;
- (B) APN DD; and
- (C) APN FM (other than an amount required to satisfy APN FM's net tangible assets requirements under its Australian Financial Services Licence).

(ii) Holus Loan

The Company is indebted to Holus Nominees Pty Limited (Holus) pursuant to the terms of a facility between the two parties (the Holus Loan).

The Holus Loan has a facility limit of \$2,950,000. The loan is repayable on 30 June 2005 or within seven days of the date upon which the Company is listed on the ASX, whichever is the earlier.

The interest rate applicable to the facility is 11% less any interest earned by Holus on the funds it has deposited as security for any bank guarantee required by the Company.

The Company's indebtedness is secured by a second ranking charge over all of its assets and undertaking.

(f) Executive and Senior Management service agreements

Executive service agreements have been entered into with each of Chris Aylward, Clive Appleton and Howard Brenchley. The key commercial terms of these executive service agreements are summarised below:

- (i) Chris 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.
- (ii) 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.
- (iii) 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.

Each member of the Group's senior management team is engaged pursuant to a written employment agreement. All senior management employment agreements are terminable upon four weeks' notice by either party.

11.9 Employee and Director/Executive Share and Option plans

The Company has established the following employee and director/executive share and option plans:

(a) 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).

It is proposed that, separate to the Offer, Qualifying Employees each be offered 1,000 Shares as part of the Employee Gift Plan (the Employee Gift Offer).

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.

(b) APN Property Group Employee Share Purchase Plan

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.

As part of the terms of issue, the Company may place restrictions on Shares.

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.

Shares are currently held as part of the Employee Purchase Plan as follows:

- 1,731,622 on behalf of Adam Grollo; and
- 720,837 on behalf of Jeff Stewart.

These Shares will continue to be held as part of the Employee Purchase Plan. The Shares will be unrestricted. The Company lent to each current participant the funds to subscribe for these Shares. The loan to Adam Grollo is interest bearing and repayable within 7 years.

It is proposed that, as part of the Offer, offers to subscribe for 645,000 Shares in the Company under the Employee Purchase Plan (Employee Purchase Offer) will be made to certain employees of the Group.

Employees that accept the Employee Purchase Offer will be restricted from dealing in those Shares for a period of 2 years.

(c) 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.

The Company does not propose to make any offers to issue options as part of the Offer.

(d) Clive Appleton Share Trust

Clive Appleton's interest in Shares in the Company is 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.

Of the Shares on issue:

- 60% are unrestricted; and
- 40% are restricted.

The restricted Shares will become unrestricted as follows:

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

Shares that do not become unrestricted may be forfeited.

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 proceeds of any sale of unrestricted shares applied as follows:

- first, in payment of the Trustee's expenses;
- second, in reduction of the loan outstanding; and
- third, 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 discussed in section 11.21.

11.10 Dividend Reinvestment Plan

The Company has adopted the Rules of a Dividend Reinvestment plan (DRP). The DRP has not yet been activated, but the Board may activate the DRP in its discretion. The Board has not yet determined when, or if, the DRP will be activated.

The DRP has the following key features:

- shareholders are provided with the opportunity to reinvest all or part of their dividends and to acquire additional Shares whilst the Company is listed on ASX on such date as the Board determines in its sole discretion;
- the number of Shares to be issued under the DRP will be determined by dividing the dividend payable in relation to participating Shares (less any deductions) plus any residual balance from the participant's plan Shares by the price equal to the volume weighted average market price for a Share on the ASX during a period of not less than five trading days following the relevant ex-date. A discount to that price may be set by the Board from time to time if the Board considers a discount appropriate in its absolute discretion. Any resulting fractional entitlement to a share is treated in accordance with the DRP;
- to the extent permitted by law, the Company will pay any brokerage, commission or other transaction costs in respect of Shares issued or transferred under the DRP;

- (iv) the Directors may determine a minimum and maximum number of Shares that can participate in the DRP. Participation in the DRP will be open to all shareholders holding the minimum number of shares (if any) subject to certain restrictions set out in the Rules;
- (v) the Board may modify, suspend or terminate the DRP as it sees fit at any time;
- (vi) if all of a shareholder's Shares participate in the DRP, any further Shares purchased by or issued to that shareholder will automatically participate in the DRP (ie. the shareholder will not be sent a cash dividend in respect of any Shares) unless the shareholder notifies the Company otherwise; and
- (vii) the Company will apply to ASX for quotation of Shares issued under the DRP.

11.11 Regulatory and Compliance

(a) Relevant regulation

The regulatory requirements to which the Company and the Group (and in particular APN FM) are subject arise specifically under:

- (i) the Corporations Act (particularly Part 5C—Managed Investment Schemes – and Chapter 7—Financial Services and Markets);
- (ii) the ASX Listing Rules;
- (iii) the Australian Financial Services Licence (AFSL) of APN FM; and
- (iv) other relevant regulation such as the Privacy Act and the Trade Practices Act.

In particular, APN FM has a number of obligations under the Corporations Act in respect of its funds management business, including the following:

- (i) compliance with financial requirements under APN FM's AFSL (ASIC Policy Statement 130 and Policy Statement 131);
- (ii) contents of the constitution of each fund (Part 5C.3 of the Corporations Act and Policy Statement 134);
- (iii) compliance plans and compliance plan audit obligations (Part 5C of the Corporations Act and ASIC Policy Statement 132);
- (iv) the composition and function of the compliance committee for each fund (Part 5C.5 of the Corporations Act);
- (v) arrangements with regard to segregation of Fund assets from assets of the responsible entity (ASIC Policy Statement 133); and
- (vi) disclosure (Part 7.9 of the Corporations Act).

APN FM is the holder of AFSL No. 237500 which permits it to carry on a financial services business. APN FM's AFSL includes all necessary authorisations.

APN FM has in respect of each of its funds registered a constitution and compliance plan which complies with the Corporations Act.

(b) Compliance policies and procedures

(i) Conflicts of interest and related party transactions

A number of contracts summarised in this Prospectus have been entered into by the Company or its subsidiaries with related entities. Further, the Company or its subsidiaries proposes entering into various arrangements with related entities.

As a public company, the Company is subject to the requirements contained in Chapter 2E of the Corporations Act relating to related party transactions. Similarly, as a responsible entity, APN FM is subject to Part 5C.7 of the Corporations Act (which applies Chapter 5C to registered managed investment schemes with necessary modifications).

Subject to a number of exceptions (including an exception for transactions entered into at "arm's length"), Chapter 2E prevents public companies from entering into transactions with related parties without first having obtained approval from the Company's shareholders. Part 5C.7 applies in a similar way to APN FM as responsible entity of its managed investment schemes. The Board has the responsibility for ensuring that the Company fully complies with its obligations in respect of related party transactions.

It is also the responsibility of individual Directors to disclose to other Directors any material personal interests they have in matters relating to the affairs of the Company.

In addition, APN FM has adopted a conflicts of interest and related party transactions policy in accordance with its obligations under the Corporations Act (as an AFSL licensee and a responsible entity of managed investment schemes) and pursuant to ASIC Policy Statement 181. Pursuant to the policy, APN FM is committed to:

- identifying, assessing, controlling, avoiding and disclosing conflicts of interest;
- referring any conflicts of interest to APN FM's compliance committee;
- evaluating transactions to determine whether they involve the provision of a financial benefit to a related party;
- seeking independent review of a transaction involving related party benefits to ensure that it is a reasonable "arm's length" transaction;
- seeking member approval if the transaction is not deemed to be an arm's length transaction following independent review; and
- reporting breaches of the policies to the compliance committee and ASIC (if necessary under the Corporations Act).

(ii) Other policies and procedures

The Company and the Group have a number of further policies and procedures relating to its internal regulation, including policies and procedures relating to:

- (A) risk management;
- (B) investment;
- (C) privacy;
- (D) human resources;
- (E) capital expenditure;
- (F) information technology;
- (G) dispute resolution;
- (H) financial requirements;
- (I) disclosure;
- (J) outsourcing; and
- (K) accounting and taxation.

APN FM uses a software system to monitor and maintain its compliance with specific legislation, regulations, compliance, risk management and other compliance arrangements implemented by APN FM in respect of its funds.

11.12 Legal Matters

(a) Material proceedings

Other than as discussed below, to the knowledge of the Directors none of the Company nor any member of the Group is involved in any litigation and the Directors are not aware of any circumstances that might reasonably be expected to give rise to such litigation.

(i) Workcover litigation – APN DD

APN DD is one of two defendants in an action brought by the Victorian WorkCover Authority (VWA) on 4 March 2005 in the County Court of Victoria. The action has been brought under section 138 of the *Accident Compensation Act 1985* (Vic), which allows the VWA to receive compensation from a negligent third party in respect of money paid to or on behalf of an injured worker. The other defendant to the action is not related in any way to APN DD.

The VWA alleges that APN DD was the principal contractor responsible for the design and construction of an office and laboratory building for Melbourne Pathology Pty Limited, that an office worker suffered injury and that APN DD breached its duty of care to the injured worker.

The VWA is seeking an undetermined amount from the defendants constituting recovery of weekly payments of compensation and medical and like expenses it has already paid and an indemnity for any future payments made to the injured worker.

If APN DD is found liable it faces the worst-case scenario of bearing 100% of the liability for the damages awarded. However, liability may be apportioned between the two defendants at the discretion of the court.

Having made all reasonable enquiries, the Directors believe that APN DD's insurance coverage will cover any damages awarded against APN DD.

(ii) Stamp duty litigation – National Storage Victorian Property Trust

In November 2003, APN FM was appointed as the trustee of the APN National Storage Victorian Property Trust (the NSVP Trust) and NS Victoria Pty Ltd (NS Victoria) retired as trustee of the NSVP Trust. Transfers of land were executed in order to transfer the land previously held by NS Victoria as trustee of the NSVP Trust to Trust Company of Australia Limited (TCA) as custodian for APN FM in its capacity as responsible entity.

Subsequently, stamp duty assessments were issued on the transfer of the land by NS Victoria to TCA. The assessments totalled \$3,603,242.00.

TCA lodged an objection against the assessments with the Victorian Commissioner of State Revenue (the Commissioner). One of the main grounds of objection was that the transfers of land were exempt in accordance with section 33(2) of the *Duties Act 2000* (Vic) on the basis that the transfers were "solely" resultant upon the retirement of the previous trustee and the appointment of APN FM as trustee of the NSVP Trust.

TCA's objection was accepted in part, reducing the original assessment to \$3,172,950.00.

The Commissioner's decision on objection is in the process of being appealed by TCA on behalf of APN FM.

The result of this appeal is largely dependent on the result of the Commissioner's appeal to the Supreme Court of Victoria in the case of *Challenger Property Nominees v Commissioner of State Revenue [2004] VCAT 2434*, which the Commissioner contends was decided wrongly in favour of the taxpayer at the Victorian Civil and Administrative Tribunal.

This matter could take several months to resolve.

A deed of indemnity (the Deed) made between National Storage (Operations) Pty Ltd (National Storage), APN FM and NS Victoria provides that National Storage agrees to indemnify APN FM 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 NSVP Trust. APN FM is also indemnified under the constitution of the APN National Storage Property Trust.

Having made all reasonable enquiries, the Directors believe that APN FM can rely on the Deed to be reimbursed for any stamp duty if an amount is ultimately payable following the determination of its appeal.

(b) Intellectual property

The Company currently holds the following registered trade marks:

- the "APN" word mark; and
- the logo trade mark with "APN" in the shape of Australia.

The word mark and the logo are registered as trade marks in Australia in relation to three classes of services, which can generally be described as:

- (i) consultancy services to business and the provision of information regarding these services;
- (ii) real estate management, leasing, appraisal and broking, securities and brokerage, financial management, consultancy services, fundraising and mutual funds and the provision of information regarding any of these services; and
- (iii) building and factory construction, supervision of construction of buildings and factories including project management, management services to the construction and other industries and the provision of information regarding any of these services.

The Company is the registered owner of the domain name "apnpg.com.au".

11.13 Directors' Interests

(a) Securities

At the date of this Prospectus, the relevant interest held by each of the current Directors (including companies and trusts associated with the Directors) in the Company is as follows:

| Existing Shareholders associated with Directors | Number of Shares at the date of this Prospectus |
|---|---|
| Holus Nominees Pty Limited in its capacity as trustee for the Aylward Family Trust (Existing Shareholder associated with Chris Aylward) | 49,123,688 |
| Amsil Pty Limited in its capacity as trustee for the Cruickshank Family Trust (Existing Shareholder associated with Andrew Cruickshank) | 16,536,862 |
| Howard Brenchley as trustee for the Brenchley Family Trust (Existing Shareholder associated with Howard Brenchley) | 13,618,610 |
| APN Property Group Nominees Pty Limited in its capacity as trustee for the Clive Appleton Share Trust (Existing Shareholder associated with Clive Appleton) | 10,000,001 |

Nothing in this Prospectus will be taken to preclude Directors, officers or employees of the Company from applying for Shares on the same terms and conditions as offered pursuant to this Prospectus.

(b) Deed of access and indemnity

The Company has executed deeds of access and indemnity in favour of the Directors. This indemnity is in addition to the indemnity provided by the Constitution (see section 11.6(m)). The indemnity is subject to the restrictions prescribed in the Corporations Act. The deed also gives each Director a right of access to board papers and requires the Company to maintain insurance cover for the Directors.

11.14 Directors' remuneration

(a) Remuneration

The Directors are to be remunerated for carrying out their duties and responsibilities as directors of the Company. The Constitution provides that shareholders in a general meeting of the Company can determine the total amount of fees to be paid to all Directors for carrying out their duties and responsibilities as Directors pursuant to the Corporations Act (excluding any remuneration payable to a Director under an executive service contract with the Company or a related body corporate). The Company must not increase the total amount of fees to be paid to the Directors without the approval of shareholders in a general meeting. At present that sum is fixed at a maximum of \$500,000, in aggregate, per annum.

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.

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.

(b) Payment of expenses

In addition to their remuneration, Directors are entitled to be reimbursed travelling and other expenses that they properly incur in attending Board meetings, attending any general meetings of the Company or in connection with the business of the Company.

(c) Payment for extra services

Subject to the Corporations Act, a Director can hold any office or position of profit in the Company (other than as auditor) together with the directorship on such conditions, including additional remuneration, as the Directors determine by resolution.

(d) Effect of cessation of office

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.

(e) Payment of superannuation contributions

The Company may also pay a Director's superannuation contributions of an amount necessary to meet the minimum level of superannuation contributions required under any applicable legislation to avoid any penalty, charge, tax or impost.

(f) Financial benefit

A Director must ensure that the requirements of the Corporations Act are complied with in relation to any financial benefit given by the Company to the Director or to any other related party of the Director.

The Company must not make loans to Directors or provide guarantees or security for obligations undertaken by Directors except as may be permitted by the Corporations Act.

In addition to remuneration payable under executive service contracts as summarised in section 11.8(f), effective from the Company's admission to the Official List the Company has agreed to pay Andrew Cruickshank a directors' fee of \$100,000 per annum.

11.15 **Interests of directors**

Other than as set out above or elsewhere in this Prospectus, no Director has or had within two years before lodgment of this Prospectus with the ASIC, any interest in:

- the promotion or formation of the Company;
- property acquired or proposed to be acquired in connection with its promotion or formation or the Offer under this Prospectus; or
- the offer of Shares under this Prospectus.

Except as set out in this Prospectus, no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to any Director:

- to induce him or her to become, or to qualify him or her as, a Director; or
- for services rendered by him or her in connection with the formation or promotion of the Company of the offer of Shares under this Prospectus.

11.16 **Interests of advisers**

Other than as set out elsewhere in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest, or has had any interest during the past two years, in the formation or promotion of the Company or in property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; and
- no amount has been paid, or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person for services provided by the person in connection with the formation or promotion of the Company or the Offer.

Grange Securities Limited is the lead manager and underwriter to the Offer. Grange Securities Limited is entitled to an underwriting fee of \$1.55 million (5% of the amount sought to be raised under the Offer) exclusive of GST, payable by the Company. Of this amount, \$400,000 is to be reimbursed to the Company by Existing Shareholders under the Buy-back (see section 11.3). The Underwriter will out of its underwriting fee pay to the Co-Manager any fee to which the Co-Manager becomes entitled.

Hall & Wilcox has acted as legal and taxation advisers to the Company in connection with the Offer and is entitled to receive approximately \$225,000, exclusive of GST, for these services.

KPMG Transaction Services (Australia) Pty Limited has acted as the investigating accountant, has prepared the investigating accountant's report and has also performed work in relation to due diligence enquiries. KPMG Transaction Services (Australia) Pty Limited is entitled to receive approximately \$150,000, exclusive of GST, for these services.

KPMG has been appointed auditor of the Company and will be entitled to receive approximately \$150,000, exclusive of GST, for audit services for the Company's FY05 audit.

11.17 No other promoters

No person, except the persons referred to in sections 11.15 and 11.16 and elsewhere in this Prospectus, has any interest in the promotion or formation of the Company.

11.18 Directors' consent

Each Director of the Company has given, and not withdrawn as at the date of this Prospectus, their consent to the lodgment of this Prospectus.

11.19 Consents to be named

The following persons or firms have consented to being named in this Prospectus in the manner detailed below and have not withdrawn their consent as at the date of this Prospectus:

- Grange Securities Limited has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to Grange Securities Limited included in this Prospectus, in the form and context in which these are included.
- Hall & Wilcox has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to Hall & Wilcox included in this Prospectus, in the form and context in which these are included.
- KPMG Transaction Services (Australia) Pty Limited has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with:
 - the references to KPMG Transaction Services (Australia) Pty Limited included in this Prospectus, in the form and context in which these are included; and
 - the inclusion of its investigating accountant's report (section 9).
- KPMG has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus, to be named as auditor of the Company and to references to audited financial information, in the form and context in which these are included.
- Tricom Equities Limited has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to Tricom Equities Limited included in this Prospectus, in the form and context in which these are included.
- ASX Perpetual Registrars Limited has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to ASX Perpetual Registrars Limited included in this Prospectus, in the form and context in which these are included.
- Standard & Poor's Information Services (Australia) Pty Limited has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to Standard & Poor's Information Services (Australia) Pty Limited included in this Prospectus, in the form and context in which these are included. The chart included on page 34 of this Prospectus has been extracted from the ASSIRT Market Share report as at December 31, 2004, a service provided by Standard & Poor's Information Services (Australia) Pty Limited (ABN 17 096 167 556) (SPIS). Material contained in the chart is summary only and is based on information believed to be reliable, however, SPIS makes no representation or warranty as to, and accepts no responsibility for, the accuracy, appropriateness, timeliness or completeness of the chart or any information contained in the chart. The chart has been prepared for general use and not for the purposes of this Prospectus. The chart has not been prepared having regard to any particular person's financial or investment objectives, financial situation or needs and should not be used as the primary source of readers' information.

- Property Investment Research has given its consent (which has not been withdrawn as at the date of this Prospectus) to the issue of this Prospectus with the references to Property Investment Research included in this Prospectus, in the form and context in which these are included.

Each of the persons or firms named in section 11.19:

- has not authorised or caused the issue of this Prospectus;
- does not make, or purport to make, any statement in this Prospectus other than a statement or a report included in this Prospectus with the consent of that person or firm; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than reference to its name and any statement or a report which has been included in this Prospectus with the consent of that person or firm.

11.20 Expenses of the offer

It is estimated that a net amount of approximately \$1.635 million will be payable by the Company in respect of underwriting, legal, taxation, accounting, corporate advisory, expert's fees, printing, ASIC and ASX fees and other costs arising from this Prospectus and the Offer.

11.21 Voluntary escrow

The persons specified below (escrowed security holders) have each entered or will enter 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:

- 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
- 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.

| Escrowed security holder | Escrow period | No. of escrowed securities |
|---|--|----------------------------|
| APN Property Group Nominees Pty Limited ACN 109 858 693 in its capacity as trustee for the Clive Appleton Share Trust | Until release of the Company's financial results for the financial year ended 30 June 2006 | 10,000,001 Shares |
| Howard Ewan Brenchley in his capacity as trustee for the Brenchley Family Trust | Until release of the Company's financial results for the financial year ended 30 June 2006 | 12,618,610 Shares |
| Holu Nominees Pty Limited ACN 005 707 620 (an entity associated with Chris Aylward) | Until release of the Company's financial results for the financial year ended 30 June 2006 | 39,298,950 Shares |
| | Until release of the Company's financial results for the half year ended 31 December 2005 | 4,912,369 Shares |
| | Until release of the Company's financial results for the financial year ended 30 June 2005 | 4,912,369 Shares |

11.22 ASX admission and quotation

The Company will apply to ASX for admission to the official list and quotation of the Shares on ASX within seven days of the date of this Prospectus.

11.23 Expiry Date

No Shares will be offered on the basis of this Prospectus later than 13 months after the date of this Prospectus.

11.24 Documents available for inspection

Copies of the following documents are available for inspection during normal office hours free of charge at the registered office of the Company for a period of not less than 12 months from the date of this Prospectus:

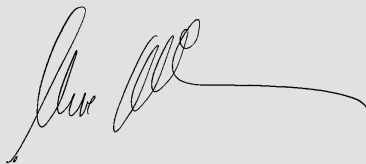
- Directors' consents to the lodgment of this Prospectus;
- the Constitution;
- the Employee Gift Plan, Employee Purchase Plan and Director/Executive Option Plan rules summarised in section 11.9; and
- the consents referred to in section 11.19.

11.25 Directors' statement

The Directors report that, in their opinion, after having made reasonable enquiry:

- except as disclosed in this Prospectus, they are not aware of any circumstances that have materially affected or will materially affect the assets and liabilities, the financial position, the profits and losses or prospects of the Company; and
- they have reasonable grounds to and do believe that this Prospectus contains no statements that are false or misleading and that there are no material omissions from this Prospectus.

This Prospectus was signed on behalf of the Directors by Clive Appleton.



Clive Appleton

Our brand of **property** investment



Glossary

GLOSSARY

| Term | Definition |
|-------------------------------------|---|
| AASB | Australian Accounting Standards Board |
| AEST | Australian Eastern Standard Time |
| Adviser Priority Offer | The priority offer of Shares to advisers, as described in section 2.9(a) |
| Adviser Priority Offer Closing Date | The date by which Application under the Adviser Priority Offer must be received |
| AGAAP | Australian Generally Accepted Accounting Practices |
| AIFRS | Australian equivalent International Financial Reporting Standards |
| APN DD | APN Delivery and Development Pty Limited ABN 18 073 853 675 (formerly known as Australian Property Network Pty Limited) |
| APN FM | APN Funds Management Limited ABN 60 080 674 479 |
| APN Property Group or Group | The Company and its wholly owned subsidiaries (including but not limited to APN FM and APN DD) |
| Applicant | An applicant for Shares offered by this Prospectus |
| Application | An application for Shares under this Prospectus |
| Application Form | An application form attached to or accompanying this Prospectus |
| Application Money | The money paid or payable in connection with an Application, being the Issue Price multiplied by the number of Shares applied for |
| ASIC | Australian Securities and Investments Commission |
| ASTC | ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504532 |
| ASX | Australian Stock Exchange Limited ABN 98 008 624 691 or the stock market conducted by ASX, as the context requires |
| ASX Corporate Governance Guidelines | The Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council |
| ASX Listing Rules | The official listing rules of ASX |
| Auditor | KPMG |
| Board | The board of Directors of the Company |
| Broker | A broker allocated Shares as part of the Broker Firm Offer |
| Broker Firm Offer | The offer of Shares to Australian resident retail investors who have received a firm allocation of Shares from their Broker |

| Term | Definition |
|---|--|
| BSX | Bendigo Stock Exchange Limited ABN 41 087 708 898 or the stock market conducted by BSX, as the context requires |
| Buy-back | The proposed buy-back of Shares and other securities by the Company from certain Existing Shareholders as described in section 11.3 |
| CHESS | The Clearing House Electronic Subregister System |
| Closing Date | 10 June 2005, being the date upon which the Applications for Shares under this Prospectus, other than under the Adviser Priority Offer, must be received |
| Co-Manager | Tricom Equities Limited ABN 92 067 161 755 |
| Company | APN Property Group Limited ABN 30 109 846 068 |
| Company Secretary | The company secretary of the Company |
| Constitution | The constitution of APN Property Group Limited |
| Corporate Directory | The corporate directory included on page 2 and the inside back cover of this Prospectus |
| Corporations Act | <i>Corporations Act 2001</i> (Cth) |
| Director | A director of the Company |
| Director/Executive Option Plan | The APN Property Group Director/Executive Option Plan, summarised in section 11.9(c) |
| DRP | The Dividend Reinvestment Plan, summarised in section 11.10 |
| EBIT | Earnings before interest and taxation |
| EBITDA | Earnings before interest, taxation, depreciation and amortisation |
| Emmy Monash | The building located at 518-526 Dandenong Road, North Caulfield, Victoria (see section 4.4(a)(iv)) |
| Employee Gift Offer | The offer of Shares to persons who are Qualifying Employees as part of the APN Property Group Share Gift Plan, as described in section 2.12 |
| Employee Gift Offer Application Form | The personalised application form accompanying the offer of Shares to Qualifying Employees, as described in section 2.12 |
| Employee Gift Plan | The APN Property Group Employee Gift Plan, summarised in section 11.9(a) |
| Employee Gift Shares | The Shares offered to Qualifying Employees under the Employee Gift Offer |
| Employee Purchase Offer | The offer of Shares to certain employees as part of the APN Property Group Employee Share Purchase Plan, as described in section 2.9(b) |
| Employee Purchase Plan | The APN Property Group Employee Share Purchase Plan, summarised in section 11.9(b) |
| Employee Purchase Shares | The Shares offered to certain employees of the Company under the Employee Purchase Offer |
| Existing Shareholders | Shareholders in the Company as at the date of this Prospectus |
| Exposure Period | The exposure period of 7 days after the date of lodgement of this Prospectus as prescribed by the Corporations Act, which may be extended by ASIC for a further period of up to 7 days |
| Forecast Period | The period ending 30 June 2006 |
| FY | Financial year |
| GAV | Gross asset value |
| General Offer | The offer of Shares to Applicants not eligible to apply for Shares under the Advisory Priority Offer, the Broker Firm Offer and the Employee Purchase Offer, as described in section 2.9(d). |

| Term | Definition |
|-------------------------------------|--|
| Group or APN Property Group | The Company and its wholly owned subsidiaries (including but not limited to APN FM and APN DD) |
| GST | Goods and services tax |
| Holding Statement | Statements issued to shareholders setting out their holdings of Shares |
| Investigating Accountant | KPMG Transaction Services (Australia) Pty Limited ABN 65 003 891 718 |
| investment platforms | Includes administrative investment platforms such as investor directed portfolio services, wrap accounts and master funds |
| IRR | Internal rate of return |
| Issue Price | The price at which Shares issued under this Prospectus will be offered to investors, being \$1.00 per Share (see section 2.1) |
| Listing Date | The date on which the Company is listed on the Official List |
| NAV | Net asset value |
| Offer | The invitation to apply for Shares under this Prospectus |
| Offer Period | The period between the date of this Prospectus and the Closing Date or Adviser Priority Offer Closing Date (as the context requires) |
| Official List | The official list of the ASX |
| PDS | Product disclosure statement |
| Property Investment Research | Property Investment Research Pty Limited ABN 97 006 425 083 |
| Prospectus | This Prospectus dated 6 May 2005 (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this Prospectus |
| Qualifying Employee | A permanent full-time employee of the APN Property Group with at least three months service as at the date of this Prospectus, excluding executive directors |
| Privacy Act | <i>Privacy Act 1988</i> (Cth) |
| Register | The Company's register of persons who hold Shares from time to time |
| Share Registry | ASX Perpetual Registrars Limited ABN 54 083 214 537 or any other person appointed to provide share registry services to the Company |
| Shares | Fully paid ordinary shares in the Company |
| Signature Building | The building situated at 120 Harbour Esplanade, Docklands, Melbourne (see section 4.4(a)(ii)) |
| Underwriter | Grange Securities Limited ABN 12 066 797 760 |

Your Guide to Completing the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

- A** Enter the number of Shares you wish to apply for. The Application must be for a minimum of 2,000 Shares, and a Maximum of 50,000 Shares.
- B** Enter the amount of Application Moneys. To calculate the amount, multiply the number of Shares applied for by A\$1.00.
- C** Enter the full name you wish to appear on the register for your Shares. Up to 3 joint Applicants may register. Refer to the table below for the correct forms of registrable name. Applicants using the wrong form of name may be **rejected**.
- D** Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For Joint Applicants, only one address can be entered.
- E** If you provide an email address, APN Property Group Limited may be able to inform you electronically of information releases from time to time.
- F** If you are already a CHES participant or sponsored by a CHES participant write your Holder Identification Number (HIN) here. Details on the Application Form must exactly match the details held on the CHES Subregister, otherwise an Issuer Sponsored Holding may be created.
- G** Enter your telephone number. This is not required but will assist us if there are any problems with your Application.
- H** Make your cheque or bank draft payable to "**APN Property Group IPO Share Offer**" crossed "Not Negotiable" and in Australian currency. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The amount must agree with the amount shown in Box B.

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

IT IS NOT NECESSARY TO SIGN THE APPLICATION FORM.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold securities. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

| Type of Investor | Correct Form of Registration | Incorrect Form of Registration |
|--|---|--|
| Individual Use given names in full, not initials | Mrs Katherine Clare Edwards | K C Edwards |
| Company Use Company's full title, not abbreviations | Liz Biz Pty Ltd | Liz Biz P/L or Liz Biz Co. |
| Joint Holdings Use full and complete names | Mr Peter Paul Tranche & Ms Mary Orlando Tranche | Peter Paul & Mary Tranche |
| Trusts Use the trustee(s) personal name(s) | Mrs Alessandra Herbert Smith <Alessandra Smith A/C> | Alessandra Smith Family Trust |
| Deceased Estates Use the executor(s) personal name(s) | Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C> | Estate of late Harold Post or Harold Post Deceased |
| Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation | Mrs Sally Hamilton <Henry Hamilton> | Master Henry Hamilton |
| Partnerships Use the partners' personal names | Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C> | Fred Smith & Son |
| Long Names | Mr Hugh Adrian John Smith-Jones | Mr Hugh A J Smith Jones |
| Clubs / Unincorporated Bodies / Business Names Use office bearer(s) personal name(s) | Mr Alistair Edward Lilley <Vintage Wine Club A/C> | Vintage Wine Club |
| Superannuation Funds Use the name of the trustee of the fund | XYZ Pty Ltd <Super Fund A/C> | XYZ Pty Ltd Superannuation Fund |

The securities to which this Application Form relates are shares in APN Property Group Limited (Company). Further details in relation to the Company and the Shares are contained in the Prospectus dated 6 May 2005 issued by the Company. The expiry date of the Prospectus is 5 June 2006 and the Closing Date of the Offer is 10 June 2005. While the Prospectus is current, the Company will, on request, send paper copies of the Prospectus, any supplementary prospectus and the Application Form free of charge.

Before completing this Application Form, Applicant(s) should read the Prospectus to which the Application Form relates. The Prospectus contains important information about investing in the Shares.

By lodging the Application Form, the Applicant(s) agrees that this Application for securities in the Company is upon and subject to the terms of the Prospectus, agrees to take any number of securities that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate.

Lodgment of Applications

Return the Application Form with your cheque attached to:

By Mail

ASX Perpetual Registrars Limited
GPO Box 2785
Melbourne Vic 3001

Or hand delivered to

ASX Perpetual Registrars Limited
Level 4, 333 Collins Street
Melbourne Vic 3000

Application Forms must be received at the above address by no later than 10 June 2005.

ASX Perpetual Registrars Limited advises that Chapter 2C of *The Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your security holding and if some or all of the information is not collected then it might not be possible to administer your security holding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.asxperpetual.com.au).

- Put the name(s) of any joint applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application.

Your Guide to Completing the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

- A** Enter the number of Shares you wish to apply for. The Application must be for a minimum of 2,000 Shares, and a Maximum of 50,000 Shares.
- B** Enter the amount of Application Moneys. To calculate the amount, multiply the number of Shares applied for by A\$1.00.
- C** Enter the full name you wish to appear on the register for your Shares. Up to 3 joint Applicants may register. Refer to the table below for the correct forms of registrable name. Applicants using the wrong form of name may be **rejected**.
- D** Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For Joint Applicants, only one address can be entered.
- E** If you provide an email address, APN Property Group Limited may be able to inform you electronically of information releases from time to time.
- F** If you are already a CHES participant or sponsored by a CHES participant write your Holder Identification Number (HIN) here. Details on the Application Form must exactly match the details held on the CHES Subregister, otherwise an Issuer Sponsored Holding may be created.
- G** Enter your telephone number. This is not required but will assist us if there are any problems with your Application.
- H** Make your cheque or bank draft payable to "APN Property Group IPO Share Offer" crossed "Not Negotiable" and in Australian currency. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The amount must agree with the amount shown in Box B.

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

IT IS NOT NECESSARY TO SIGN THE APPLICATION FORM.

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CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold securities. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

| Type of Investor | Correct Form of Registration | Incorrect Form of Registration |
|--|---|--|
| Individual Use given names in full, not initials | Mrs Katherine Clare Edwards | K C Edwards |
| Company Use Company's full title, not abbreviations | Liz Biz Pty Ltd | Liz Biz P/L or Liz Biz Co. |
| Joint Holdings Use full and complete names | Mr Peter Paul Tranche & Ms Mary Orlando Tranche | Peter Paul & Mary Tranche |
| Trusts Use the trustee(s) personal name(s) | Mrs Alessandra Herbert Smith <Alessandra Smith A/C> | Alessandra Smith Family Trust |
| Deceased Estates Use the executor(s) personal name(s) | Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C> | Estate of late Harold Post or Harold Post Deceased |
| Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation | Mrs Sally Hamilton <Henry Hamilton> | Master Henry Hamilton |
| Partnerships Use the partners' personal names | Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C> | Fred Smith & Son |
| Long Names | Mr Hugh Adrian John Smith-Jones | Mr Hugh A J Smith Jones |
| Clubs / Unincorporated Bodies / Business Names Use office bearer(s) personal name(s) | Mr Alistair Edward Lilley <Vintage Wine Club A/C> | Vintage Wine Club |
| Superannuation Funds Use the name of the trustee of the fund | XYZ Pty Ltd <Super Fund A/C> | XYZ Pty Ltd Superannuation Fund |

- Put the name(s) of any joint applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application.

Corporate Directory

Registered Office

APN Property Group Limited
Level 32
101 Collins Street
Melbourne VIC 3000
Telephone: (03) 9654 7655
www.apnpg.com.au

Directors

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

Lead Manager and Underwriter

Grange Securities Limited
Level 34
360 Collins Street
Melbourne VIC 3000
Telephone: 1800 634 636

Co-Manager

Tricom Equities Limited
Level 10, Exchange House
10 Bridge Street
Sydney NSW 2000
Telephone: (02) 9210 7884

Investigating Accountant

KPMG Transaction Services
(Australia) Pty Limited
161 Collins Street
Melbourne VIC 3000

Auditor

KPMG
161 Collins Street
Melbourne VIC 3000

Legal Advisors to the Offer

Hall & Wilcox
Level 30, Bourke Place
600 Bourke Street
Melbourne VIC 3000

Share Registry

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

APN | Property Group Limited

www.apnpg.com.au