ANNUAL REPORT 2006

APN | Property Group Limited

Our brand of property investment

Contents

APN Property Group Limited
and its Controlled Entities

ABN 30 109 846 068

2006 Financial year highlights

- Share price increases to $2.38 at June 30, 2006 from $1.00 at IPO on June 23, 2005.
- Net profit after tax of $12 million, 50% above Prospectus forecast.
- Funds under management increases by 79% to $3.4 billion.
- Company launches three new property funds.
- Increase in resourcing and platform to support further growth.

Chairman's Statement

Chris Aylward
Chairman

Welcome to the second annual report for the APN Property Group Limited ("the Company"), for the year ended June 2006.

This reflects the first full year of operation since the Company listed on the Australian Stock Exchange (ASX) on June 23, 2005. During the 2006 financial year, we have made further significant progress.

Key highlights of the year include the following:

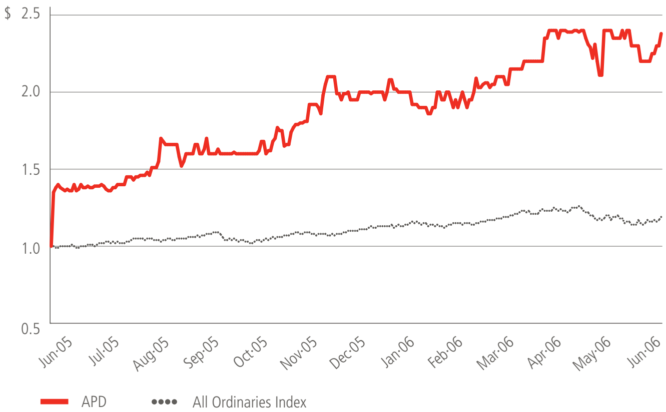
Net Profit & Dividends

The Company achieved a Net Profit After Tax of $12.02 million, which is 50% ahead of our Prospectus forecast of $7.977 million. The primary factors contributing to the profit significantly exceeding our Prospectus forecasts were the successful launch and subsequent expansion of the APN/UKA European Retail Trust and further significant growth in funds under management for our three property securities funds.

Consistent with exceeding Prospectus forecasts, the Company has paid a fully franked dividend of 8 cents per share for the 2006 financial year, which is well above the Prospectus forecast of 6.2 cents per share.

Trading on the Australian Stock Exchange

The shares, which were issued at $1.00 on 23 June 2005, started the financial year at $1.36 and closed at the end of the financial year at $2.38 per share, generating an excellent return for shareholders. Following the end of the financial year and the release of the financial results on 31 August 2006, the shares closed at $2.65 on 1 September 2006.



Growth in funds under management for APN

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

In the year to June 2006, APN FM increased the number of funds it manages from 8 to 11, and increased funds under management from approximately $1.9 to $3.4 billion. Further information regarding this is detailed in the report from the Managing Director.

Increases in resourcing and business platform

During the year considerable progress has been made on expanding the resources and platform to strengthen the existing business and to support further growth. This has included employing new staff particularly in the areas of accounting, investments and technology.

A very important initiative has also been establishing an office in London with our Joint Venture Partner, UKA Australasia Limited (UKA). UKA is a group of property professionals which has been engaged to support the launch of property funds in Australia with European based assets, such as our new listed property trust (AEZ). APN has established its own team in London to work with UKA to help manage and expand these opportunities. We see this as a very important initiative for the Group's expansion.

2007 – The year ahead

We look forward in the 2007 financial year to a further strengthening and expansion of our business. We are pleased to report that we have had another strong start to the new financial year with funds under management already targeted to exceed $3.9 billion by 31 December 2006.

Yours sincerely,

Chris Aylward
Executive Chairman

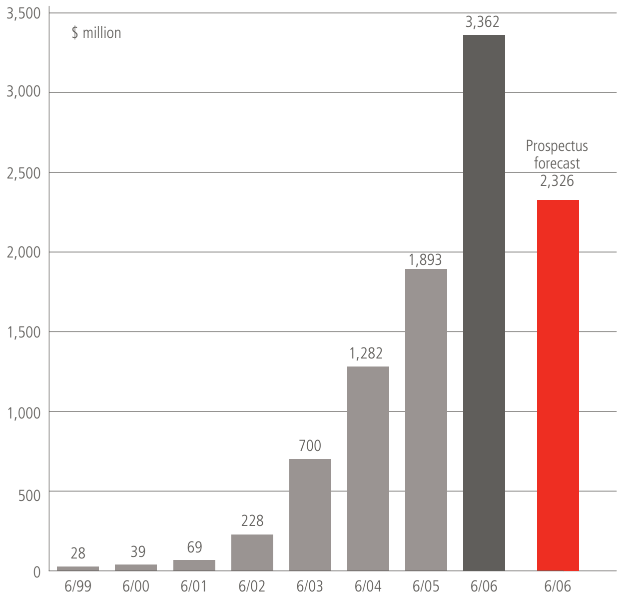
Managing Director's Statement

Clive Appleton
Managing Director

Funds Management Division

As indicated in the Chairman's statement, the funds management division (APN FM), which represents the core business of the Group, has continued to deliver strong results. There has been a growth in funds under management in excess of $1.5 billion over the last financial year to $3.4 billion, more than $1 billion ahead of the 2005 ASX listing Prospectus forecast. The following table briefly illustrates the growth since the funds management division was created.

Growth in funds under management



The Property Funds Management Sector

There are many factors which drive growth in the sector but several factors which have a significant impact on this are discussed briefly below.

1. Returns have been positive
   Returns from property have been consistently strong across virtually all sectors and most locations in Australia, Europe and the US. While past performance may not be reflected in future performance and most expectations for the returns from the property sector are now lower than that experienced over recent years, general expectations remain positive.
2. Demand
   The demand for property continues to be positive.
   In Australia such demand is enhanced by factors such as the 9% compulsory superannuation levy which should result in a continued growth in demand for funds management type products.
3. Supply
   The key trend to emerge over the last financial year has been the continued globalisation of property markets. The positive impact of this to the property funds management sector is the ability to launch new property funds in markets which have previously been unavailable. While this potentially gives rise to greater competition, it has the effect of broadening the appeal of property as an asset class and increasing the number of investors and the amount of investment funds that can be directed to property.

The following is a brief overview of the major achievements for the Company in each of the markets, in which it operates.

Managing Director's Statement

Retail Market

This represents a significant proportion of the business with approximately $2.5 billion or 74% of current funds under management.

Launch of APN Suite of Property Funds

During the year the company launched a new range of property funds referred to as the APN Suite of Property Funds, designed for retail investors and investment platforms. The Suite enables investors to invest in either an Australian property securities fund (APN Property for Income Fund No2); an international property securities fund (APN International Property for Income Fund); an Australian direct property fund (APN Direct Property Fund); or a diversified property fund (APN Diversified Property Fund) which provides an investment in each of the specialist funds.

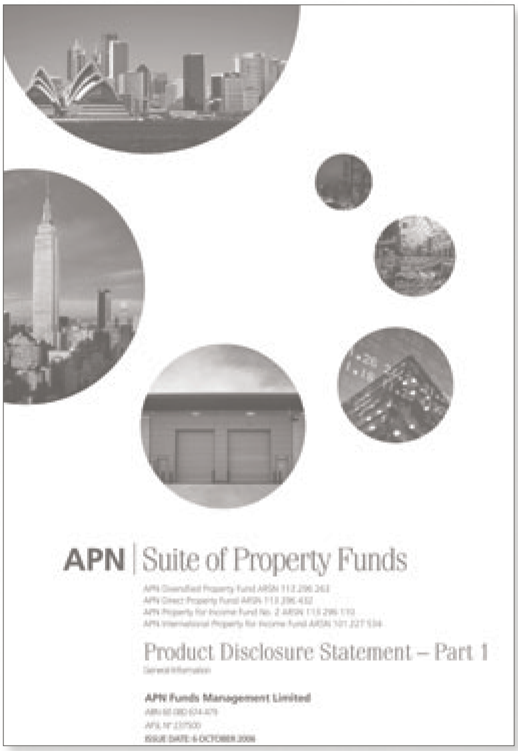
The launch of these funds has substantially increased the choice and flexibility for investors and advisers to make decisions about how best to achieve their property investment objectives.

Over the year the total assets under management from these funds has increased significantly. Of particular success has been the new APN Property for Income Fund No2 which has been created to be the Company's main Australian property securities fund offer to new investors, replacing the original APN Property for Income Fund. The new fund has been launched to reflect the need to have a broader investment mandate to accommodate the changing nature of the Listed Property Trust sector. The transition to this new fund has been very successful. The fund now has total assets under management of $250 million, less than 12 months from inception.

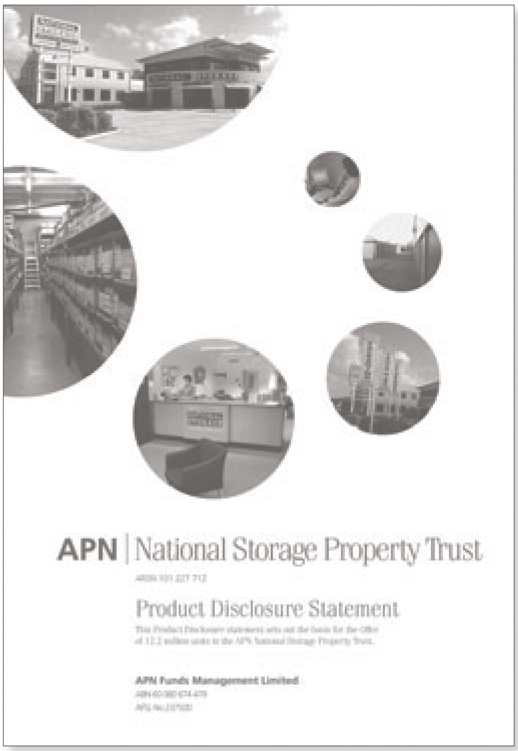
Expansion of Australian property based Unlisted Direct Property Funds

During the year the Company successfully completed capital raisings for the APN National Storage Property Trust and the APN Property Plus Portfolio.

The capital raisings were undertaken to acquire a number of properties which have improved the diversification for each fund and have contributed to a growth in funds under management of around $60 million.



PDS for the new APN Suite of Property Funds



PDS for the recent capital raising for the APN National Storage Property Trust

Launch of European property based Unlisted Direct Property Funds

An important initiative undertaken during the year was to establish APN's first European unlisted direct property fund.

Since financial year end, the APN/UKA Vienna Retail Fund was successfully launched and completed with the Company raising $45 million from Australian investors, which together with borrowings allowed the fund to acquire a shopping centre in Vienna, Austria.

APN expects to launch a number of similar funds each year.

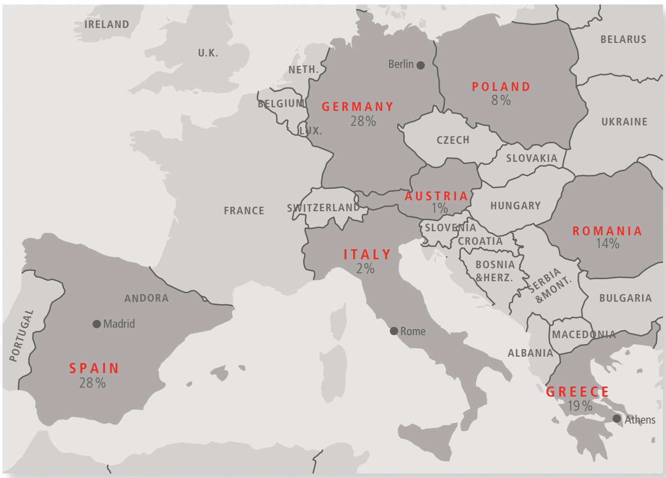
Shopping Centre Nord owned by APN/UKA Vienna Retail Fund

Listed Market

APN/UKA European Retail Trust

In July 2005 the Company completed an initial public offering (IPO) for the APN/UKA European Retail Trust, a listed property trust investing in European retail property. The offer closed oversubscribed with significant demand from retail and institutional investors. The Trust listed on the Australian Stock Exchange (ASX code AEZCA) in July 2005 with an initial raising of $240 million in equity and debt. In the period since, APN FM has undertaken a number of capital raisings for the Trust which resulted in total assets increasing to around $900 million by the end of the 2006 financial year and is forecast to increase to over $1.4 billion by December 2006.

During the year the Trust acquired 33 retail assets across Spain, Germany, Greece and Italy and post year end made acquisitions in Romania, Austria and Poland.



Countries in which the APN/UKA European Retail Trust is invested

Wholesale Funds

During the year APN expanded the APN Development Fund No 1. This is a wholesale property development fund which has a mandate to undertake property developments across Australia. By the end of the financial year the fund had commenced three developments in Queensland and Victoria (pictured on page 6) as well as acquiring a property development company in Brisbane. The fund has now committed 64% of the equity it has available to development projects, well ahead of its original target.

The fund has an investment objective to deliver an internal rate of return to investors of 18% per annum.

Managing Director's Statement

Capital Management

In October 2006 the Company raised $30 million in new capital via a placement of shares. This will provide working capital to assist the growth of, and potentially expand existing funds and the launch of new property funds.

APN Development and Delivery Division

In the Prospectus we indicated there were a number of legacy or development projects which were nearing completion and which would be completed during the 2006 financial year. We are pleased to report that each of these developments has now been completed. Property developments will no longer be undertaken by the Company directly but will occur within the APN Development Fund No1.

Clive Appleton

Managing Director

Proposed office tower development at 567 Collins St, Melbourne for the APN Development Fund No 1.

Directors' report

For the year ended 30 June 2006

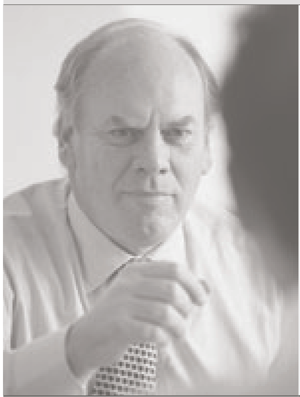
The directors present their report together with the financial report of APN Property Group Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status.

Experience, special responsibilities and other directorships



Christopher J. Aylward – Chairman, Executive Director

A Director since 1996*.

Christopher has been involved in the Australian property and construction industry for over 30 years. He is the founding Chairman of APN Property Group ("APN") and has overseen its transition from property developer to specialist Property Funds Management Company since its listing in 2005.

Prior to joining APN, Christopher was a founding Director and a major shareholder in Grocon Pty Limited and was responsible for overseeing the construction of commercial and retail properties with a total value of over $2 billion. These included Governor Philip and Governor Macquarie Towers in Sydney and 120 Collins Street and The World Congress Centre in Melbourne.

Christopher has no other directorships on other listed companies in the 3 years prior to 30 June 2006.

Clive R. Appleton *B.Ec, MBA, GradDip (Mktg), FAICD* – Managing Director, Executive Director

A Director since 2004*.

Clive joined the APN Property Group as Managing Director in 2004 after a long career in property and property funds management. Before joining APN, Clive held the positions of Managing Director of the Gandel Group, one of Australia's foremost shopping centre developers and managers and Managing Director of Centro Properties Limited, a listed property developer, manager and owner.

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

Clive has no other directorships on other listed companies in the 3 years prior to 30 June 2006.

Howard E. Brenchley *B.Ec* – Executive Director

A Director since 1998*.

Howard has had a high profile in the property trust industry as an investor, researcher and commentator for over 20 years. Prior to joining APN in 1998, Howard was co-founder and research director of Property Investment Research Pty Limited, an independent Australian research company, specialising in the property trust sector.

Howard was responsible for the origination and development of APN's funds management business and as Chief Investment Officer, continues to oversee all investment management and product development.

Howard has no other directorships on other listed companies in the 3 years prior to 30 June 2006.

Andrew N.C. Cruickshank *B.A. (Ec), GradDip (Prop), GradDip (Acc), MUP* – Non-Executive Director

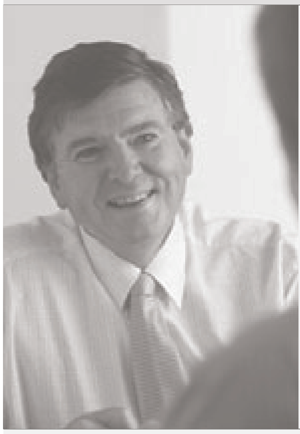
A Director since 1996*.

Andrew has nearly 30 years experience in the Australian, British and Hong Kong property markets and co-founded APN's development business in 1996. Prior to APN, he was General Manager of Grocon Pty Limited, during which time he was extensively involved in the financing and development management of Grocon projects at 120 and 161 Collins Street, the SECV headquarters in Melbourne and the Penrith Taxation Office in Sydney.

Andrew has no other directorships on other listed companies in the 3 years prior to 30 June 2006.

Directors' report

For the year ended 30 June 2006

	Name, qualifications and independence status. Experience, special responsibilities and other directorships
	**Michael Butler** *BSc, MBA, FAICD* – Independent Non-Executive Director (appointed 12 December 2005) A Director since 2005. Michael has more than 20 years experience in the financial services sector, having enjoyed a long career at Bankers Trust Australia following periods at AMP Society and Hill Samuel Australia (the predecessor of Macquarie Bank). Since 1999, Michael has been a professional director. He is currently a Director of AXA Asia Pacific Holdings Limited and Members Equity Bank Pty Limited. During the past three years, he has also served as a Director of Hamilton Island Limited (until February 2004), Ticor Limited (May 2004 to September 2005), Baxter Group Limited (May 2004 to March 2006) and Verticon Group Limited (December 2004 to February 2006). Michael is also Chairman of the Audit & Risk Management Committee for APN.

* In 2004, the APN Group was reconstructed. This included the incorporation of APN Property Group Limited and its positioning as the legal parent entity of the group. Messrs Aylward, Appleton, Brenchley and Cruickshank were appointed Directors of APN Property Group Limited on 1 July 2004. Reference above to their date of appointment as Director includes the period prior to the reconstruction.

2. Company secretary

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

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

3. Directors' meeting

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are as follows:

Director	Board Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings	
	A	B	A	B	A	B
Christopher Aylward	13	13	3	3	2	4
Clive Appleton	12	13	2	3	4	4
Howard Brenchley	12	13	N.A.	N.A.	4	4
Andrew Cruickshank	11	13	3	3	N.A.	N.A.
Michael Butler	6	7	2	2	N.A.	N.A.

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

4. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

4.1 Board of directors

Role and Responsibilities

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

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

The role of the Board includes:

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

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

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

Composition, Structure and Processes

The Board currently comprises three executive directors and one non-executive director and one independent non-executive director. The names and biographical details of the directors are set out on pages 7 to 8.

Terms of Appointment

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

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

4.2 Board Sub-Committee

Nomination and Remuneration Committee

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

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

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

The current members of the Nomination and Remuneration Committee are Christopher Aylward (Chairman), Clive Appleton and Howard Brenchley.

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

Audit and Risk Management Committee

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

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

4. Corporate governance statement continued

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

The current members of the Audit and Risk Management Committee are Christopher Aylward, Andrew Cruickshank, Clive Appleton and Michael Butler (Chairman).

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

4.3 Review of Board Performance

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

The evaluation will include a review of:

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

A review of each director's performance will be undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election. Christopher Aylward was re-elected on the 8 November 2005 at the Annual General Meeting for financial year ended 30 June 2005.

4.4 Ethical Standards, Market Communication and Conflict of Interest

Code of Conduct

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

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

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

Securities Trading Policy

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

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

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

Continuous Disclosure

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

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

Compliance with ASX Corporate Governance Guidelines

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

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

Recommendations 2.1, 2.2, 2.4, 4.3 and 9.2
Consistent with the intentions set out in the 30 June 2005 Corporate Governance Report, APN PG has appointed an independent director, Michael Butler during the year and made him the Chair person of the Audit and Risk Management Committee as well. In addition, APN PG intends to supplement its current mix of executive and non-executive directors with further appointments of non-executive directors.

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

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

4.5 Remuneration report

4.5.1 Principles of compensation

Remuneration is referred to as compensation throughout this report.

This remuneration report relates to the Directors of the Company, the Secretary of the Company, the S300A executive of the Company and the 5 most highly remunerated S300A executives of the consolidated entity. The directors are of the opinion that there is only 1 S300A executive for the Company as there are no other executives that participate in making decisions that affect the whole, or a substantial part, of the business of the Company; or has the capacity to affect significantly the Company's financial standing.

Directors and senior executives have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity.

Compensation levels for directors and senior executives of the Company, and the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Nomination and Remuneration Committee obtains independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

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

- The capability and experience of the directors and senior executives
- The directors and senior executives' ability to control the relevant segments' performance
- The consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
- The amount of incentives within each director and senior executives' compensation.

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

In addition to their salaries, the consolidated entity also provides non-cash benefits to its directors and senior executives. Retirement benefits payable to directors are covered by a separate retirement scheme described below.

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

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

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

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

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

4. Corporate governance statement continued

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

Performance-linked compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided through offering shares in the Company via the APN Property Group Employee Share Purchase Plan (the Plan) (refer to Note 32).

Short-term incentive bonus

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

The financial performance objectives are based on the underlying performance and certain profit measures of relevant business areas compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, customer satisfaction and staff development. These measures are chosen because they directly align the individual efforts to the overall performance of the Group.

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

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

Fully vested bonuses of $579,274(2005: $200,000) were paid to the directors and senior executives during the financial year.

Long-term incentive

Shares in the Company may be offered to directors and senior executives through the APN Property Group Employee Share Purchase Plan (the Plan).

Each participant in the Plan may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee of the plan. At the discretion of the directors, shares offered under the plan may either require that any dividends received in respect of the shares held on trust be first be used to repay the loan, or that the participant be fully entitled to dividends as ordinary shareholders. In substance, this arrangement is similar to an option to purchase shares in the Company.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

During the financial year ended 30 June 2005, 645,000 share options were issued to eligible employees under the Plan. These include 285,000 share options to senior executives of the Company and the consolidated entity. These share options fully vest at grant date but senior executives are restricted from selling them for a period of 2 years. All share options offered as part of this issue were funded by an interest free loan from the Company and any dividends received in respect of the shares are applied to the repayment of the loans.

On 28 February 2006, 2,000,000 shares options were issued to the senior executives under the Plan. Of the 2,000,000 shares options issued, 500,000 vested at grant date.

The remaining 1,500,000 are subject to forfeiture and are therefore restricted. They will vest (to a maximum of 500,000 for each calendar year) if certain equity measures and net fund inflows criteria are met for the calendar year 2006, 2007 and 2008.

The equity measures and net fund inflows criteria are chosen as they are good indicators of the consolidated entity's growth in earnings and are aligned to shareholder wealth objectives. In assessing whether the equity measures and net fund inflows criteria have been achieved, the Nomination and Remuneration Committee review the targets against actual achieved equity measures and net fund inflows.

All shares options offered as part of this issue are funded by an interest free loan from the Company. All options issued allow the participant to be fully entitled to dividends as ordinary shareholders

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $94,634 (2005: $Nil).

On 10 September 2004, 3,084,039 share options in the Company were issued for the benefit of Mr Clive Appleton, the Managing Director of the Company under a separate plan. On 28 April 2005, as part of the share sub division, the number of shares became 10,000,001.

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

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

Of the 10,000,001 shares options issued to Mr Clive Appleton, 6,000,000 vested upon the successful listing of the Company on the ASX in 2005 and an additional 2,000,000 vested upon the achievement of certain profit targets for 30 June 2006. The remaining share options of 2,000,001 are subject to forfeiture and are therefore restricted. They will vest (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The profit targets are chosen as it is a good indicator of the Company's growth in earnings and is aligned to shareholder wealth objectives. In assessing whether the profit targets have been achieved, the Nomination and Remuneration Committee reviews the targets against actual achieved profit numbers.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $83,200 (2005: $62,400).

At 30 June 2006, the senior executives were also issued 2,724 (2005: 5,000) gift shares under the APN Property Group Employee Share Gift Plan and the fair value of the shares issued under these arrangements included in remuneration was $6,000 (2005: $5,000).

Consequences of performance on shareholders wealth

The criteria adopted for both short term and long term incentives have been established to provide an alignment with the returns to investors. Value growth through current year profits and the creation of substantial earnings in future years will provide for investors, short term returns through annual dividends and likely growth in the share price over the longer term.

In the period since listing (in June 2005), APN PG has delivered the following results:

	2006 $'000	2005 $'000
Net profit attributable to equity holders of the parent	12,020	4,767
2005 ordinary dividends	–	2,301
2005 preference dividends	–	321
2006 ordinary dividends	9,364	–
2005 ordinary dividends (cents per share)	–	2.0 cents
2005 preference dividends (cents per share)	–	$1.17
2006 ordinary dividends (cents per share)	8.0 cents	–
Share price at 30 June (Issue price: $1.00)	$2.38	$1.36

The overall level of directors and senior executives compensation takes into account the performance of the consolidated entity over the years. Over the past 2 years the consolidated entity's profit from ordinary activity after income tax has grown at an average rate of 152 per cent per annum. During the same period, average director and senior executive compensation has growth by approximately 6 per cent per annum.

Retention/retirement benefits

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

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

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

Executive and Senior Management service agreements

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

4. Corporate governance statement continued

Each of these agreements provide for various conditions including:

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

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

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

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

4.5.2 Directors' and executives' remuneration (Company and Consolidated)

Details of the nature and amount of each major element of remuneration of each director of the Company, the Company Secretary and the Company and Group executives who receive the highest remuneration are set out on page 15.

Notes in relation to the table of directors' and executives' remuneration

A. The short-term incentive bonus is for performance during the 30 June 2006 financial year using the criteria set out on page 12. The amount was finally determined on 22 August 2006 after performance reviews were completed and approved by the Nomination and Remuneration Committee.

B. The fair value of the options is calculated at the date of grant using a binominal lattice model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options any market conditions have been taken into account.

C. The insurance premiums paid in respect of the officers and directors of the Company and its controlled entities for the reporting period was $17,009. No amounts have been allocated to the individuals covered by the insurance policy as based on available information, the directors believe that no reasonable basis for such allocation exists.

		Short-term				Post-employment	Share-based payments				
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Gift shares	Options (B)	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		$	$(A)	$	$	$	$	$	$	%	%
Directors											
Non-executive Directors											
Michael Butler (Independent)	2006	58,104	–	–	58,104	5,229	–	–	63,333	–	–
	2005	–	–	–	–	–	–	–	–	–	–
Andrew Cruickshank (not considered independent)	2006	91,743	–	–	91,743	8,257	–	–	100,000	–	–
	2005	331,038	–	42,382	373,420	16,154	–	–	389,574	–	–
Executive Directors											
Christopher Aylward, Executive Chairman	2006	183,486	–	–	183,486	16,514	–	–	200,000	–	–
	2005	358,389	–	61,298	419,687	23,170	–	–	442,857	–	–
Clive Appleton, Managing Director	2006	644,926	–	–	644,926	12,139	–	20,800	677,865	3.1%	3.1%
	2005	684,639	–	–	684,639	11,585	–	62,400	758,624	8.2%	8.2%
Howard Brenchley, Chief Investment Officer	2006	481,877	–	–	481,877	12,139	–	–	494,016	–	–
	2005	525,749	–	–	525,749	11,585	–	–	537,334	–	–
Executives											
Warren Boothman (APN PG, General Manager, Corporate)	2006	185,406	120,000	–	305,406	12,139	1,000	–	318,545	37.7%	–
	2005	176,713	50,000	–	226,713	11,899	1,000	–	239,612	20.9%	–
Michael Hodgson (APN FM, Manager, Development Funds)	2006	262,677	180,524	29,914	473,115	12,139	1,000	–	486,254	37.1%	–
	2005	180,558	–	30,042	210,600	12,030	1,000	–	223,630	–	–
Michael Doble (APN FM, Director, Retail Funds)	2006	286,316	80,000	–	366,316	12,139	1,000	47,317	426,772	29.8%	11.1%
	2005	272,344	75,000	–	347,344	12,030	1,000	–	360,374	20.8%	–
Charles Raymond (APN FM, Director, Listed Funds)	2006	204,085	150,000	–	354,085	12,139	1,000	47,317	414,541	47.6%	11.4%
	2005	121,142	50,000	–	171,142	7,040	1,000	–	179,182	27.9%	–
John Freemantle (APN PG, Chief Financial Officer)	2006	84,482	18,750	–	103,232	3,982	1,000	–	108,214	17.3%	–
	2005	–	–	–	–	–	–	–	–	–	–
Peter Nicholson (APN PG, Company Secretary)	2006	148,806	30,000	–	178,806	12,139	1,000	–	191,945	15.6%	–
	2005	130,444	25,000	–	155,444	11,253	1,000	858	168,555	15.3%	0.5%
Total compensation: (consolidated)	2006	2,631,908	579,274	29,914	3,241,096	118,955	6,000	115,434	3,481,485		
	2005	2,781,015	200,000	133,722	3,114,737	116,746	5,000	63,258	3,299,741		
Total compensation:(company)	2006	1,693,424	48,750	–	1,742,174	70,399	2,000	20,800	1,835,373		
	2005	2,030,259	25,000	103,680	2,158,939	73,747	1,000	63,258	2,296,944		

4. Corporate governance statement continued

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
10 September 2004	$0.01 cents	$0.31	$0.31	25.0%	5.50%	6.57%
20 June 2005	$0.01 cents	$1.00	$1.00	25.0%	5.30%	6.57%
28 February 2006	$0.19 cents	$1.95	$1.95	32.3%	5.63%	3.15%

These share options expire on the termination of the individual directors and executives employment.

Details of performance related remuneration

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 12.

4.5.3 Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company, the Company Secretary and relevant Company and Group executives are detailed below.

	Short term incentive bonus		
	Included in remuneration $(A)	% vested in year	% forfeited in year (B)
Executives			
Michael Doble	80,000	100%	–
Charles Raymond	150,000	100%	–
Warren Boothman	120,000	100%	–
Michael Hodgson	180,524	100%	–
John Freemantle	18,750	100%	–
Peter Nicholson	30,000	100%	–

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2006 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

4.5.4 Equity instruments

All options refer to options over ordinary shares of APN Property Group Limited, which are exercisable on a one-for-one basis under the APN Property Group Employee Share Purchase Plan.

4.5.4.1 Analysis of options over equity instruments granted as compensation

Details of vesting profile of the options granted as remuneration to each director of the Company, the Company Secretary and the relevant Company and Group executives is detailed below:

	Options granted		% vested	Forfeited in	Financial years in which	Value yet to vest $	
	Number	Date	in year	year (A)	grants vest	Min (B)	Max
Directors							
Clive Appleton	6,000,000	10 September 2004	100%	–	30 June 2005	–	–
	2,000,000	10 September 2004	100%	–	30 June 2006	–	–
	2,000,001	10 September 2004	–	–	30 June 2007	Nil	20,800
Executives							
Michael Doble	150,000	20 June 2005	100%	–	30 June 2005	–	–
	250,000	28 February 2006	100%	–	30 June 2006	–	–
	250,000	28 February 2006	–	–	30 June 2007	Nil	47,317
	250,000	28 February 2006	–	–	30 June 2008	Nil	47,317
	250,000	28 February 2006	–	–	30 June 2009	Nil	47,317
Charles Raymond	30,000	20 June 2005	100%	–	30 June 2005	–	–
	250,000	28 February 2006	100%	–	30 June 2006	–	–
	250,000	28 February 2006	–	–	30 June 2007	Nil	47,317
	250,000	28 February 2006	–	–	30 June 2008	Nil	47,317
	250,000	28 February 2006	–	–	30 June 2009	Nil	47,317
Warren Boothman	30,000	20 June 2005	100%	–	30 June 2005	–	–
Michael Hodgson	75,000	20 June 2005	100%	–	30 June 2005	–	–

(A) The % forfeited in the year represents the reduction from the maximum number of shares available to vest due to the highest level performance criteria not being achieved.

(B) The minimum value of options yet to vest is $Nil as the performance criteria may not be met and consequently the options may not vest.

4.5.4.2 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director, the Company Secretary and relevant Company and Group executives is detailed below.

	Value of Options			
	Granted in year $ (A)	Exercised in year $ (B)	Forfeited in year $ (C)	Total option value in year $
Executives				
Michael Doble	189,268	6,621	–	195,889
Charles Raymond	189,268	1,324	–	190,592
Warren Boothman	–	1,324	–	1,324
Michael Hodgson	–	3,311	–	3,311
Peter Nicholson	–	4,414	–	4,414
	378,536	16,994	–	395,530

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binominal lattice model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. 28 February 2006 to 31 December 2008).

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a binominal lattice model with no adjustments for whether the performance criteria have not been achieved.

Directors' report

For the year ended 30 June 2006

5. Principal activities

The principal activities of the Company and the consolidated entity during the course of the financial year were:

- Funds management services; and
- Building and construction services

There were no significant changes in the nature of the activities of the Company and the consolidated entity during the financial year.

6. Operating and financial review

Overview of the consolidated entity

Financial Highlights
The consolidated net profit after income tax for APN Property Group Limited for the year ended 30 June 2006 was $12,020,000 (2005: $4,767,000).

Funds Management
During the year, funds under management increased by $1.5 billion to $3.4 billion. This includes the successfully established APN UKA European Property Trust which has pioneered APN's move into European markets and the continued growth of the flagship property securities funds. APN has successfully broadened its earnings base, recording revenues in excess of $26.6 million (including equity accounted income) for the year. This has contributed $11.1 million to net profit after tax.

Non Recurring Income
During the year, APN completed the legacy construction and development projects outstanding at the time of listing. Although some properties are still in their retention period, it is the view of directors that adequate allowance has been made for any outstanding completion costs. Net profit after tax from these activities was $1.8 million.

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

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

Significant changes in the state of affairs
In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year.

7. Dividends

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Declared and paid during the financial year				
Ordinary shares				
Final 2005 ordinary	2.0	2,301	100% Franked	[2] 31 October 2005
Interim 2006 ordinary	4.0	4,682	100% Franked	[1] 11 April 2006
		6,983		
Franked dividends declared and paid during the year were franked at the rate of 30 per cent.				
Declared after end of year				
After the balance sheet date the following dividends were declared by the directors. The dividends have not been provided and there are no income tax consequences.				
Final 2006 ordinary	4.0	4,682	100% Franked	[1] 13 October 2006
Total amount		4,682		

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

	Note	Total amount $'000
Dealt with in the financial report as:		
– Dividends	24	6,983
– Noted as a subsequent event	33	4,682

1 Paid out of AIFRS profits
2 Paid out of old AGAAP profits

8. Events subsequent to reporting date

Since the balance date the directors have declared a dividend of 4 cents per fully paid ordinary share franked at the corporate tax rate of 30 percent, amounting to $4,682,541.

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

9. Likely developments

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

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

10. Environmental regulation

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

11. Directors interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Number of Ordinary shares	Shares issued under limited or non recourse loans, disclosed as share options
Directors		
Christopher Aylward	49,123,688	–
Clive Appleton	–	10,000,001
Howard Brenchley	12,618,610	–
Andrew Cruickshank	1,536,862	–
Michael Butler	31,290	–

12. Share options

Options granted to directors and officers of the Company

During or since the end of the financial year, the Company has not granted any options for no consideration over unissued ordinary shares in the Company to the directors and most highly remunerated officers of the Company as part of their remuneration.

Unissued shares under options

At the date of this report, there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

During the financial year, the Company has issued 28,473 ordinary shares at $1.00 each as a result of the exercise of options and there were no amounts unpaid on the shares issued.

13. Voluntary Escrow

In the 2005 Annual Report, the Directors specified that the escrowed security holders, being, Christopher Aylward, Clive Appleton and Howard Brenchley have each entered into a voluntary escrow deed with the Company pursuant to which they agree not to sell, transfer or otherwise dispose of their interests in the escrowed securities for an escrow period.

Upon the release of the Company's financial results for the financial year ended 30 June 2006, the holding locks and/or transfer restrictions to the escrowed securities have been released.

14. Indemnification and insurance of officers and auditors

Indemnification

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

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

Insurance premiums

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

14. Indemnification and insurance of officers and auditors continued

Company and directors, senior executives and secretaries of its controlled entities.

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

The premiums paid in respect of the officers of the Company and its controlled entities for the reporting period were $17,009 (2005: $29,290).

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

15. Non-audit services

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

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *F1Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2006 $	2005 $
Audit services:		
Auditors of the Company		
audit and review of financial reports (KPMG Australia)	204,000	340,000
other regulatory audit services (KPMG Australia)	14,000	–
	218,000	340,000
Services other than statutory audit:		
Other services		
Due diligence services (KPMG Australia)	–	150,000
Accounting assistance (KPMG Australia)	22,500	45,000
	22,500	195,000

16. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 78 and forms part of the directors' report for the financial year ended 30 June 2006.

17. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

Christopher J. Aylward
Director

Dated at Melbourne this 7th day of September 2006.

KPMG

Independent audit report to the members of APN Property Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes 1 to 35 to the financial statements, and the Directors' declaration set out on pages 22 to 77 for both APN Property Group Limited (the "Company") and APN Property Group Limited and its controlled entities (the "consolidated entity"), for the financial year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

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

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

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

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

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

Audit opinion

In our opinion, the financial report of APN Property Group Limited for the year ended 30 June 2006 is in accordance with:

a) the *Corporations Act 2001*, including

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and

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

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Don Pasquariello

Don Pasquariello
Partner
Melbourne
7 September 2006

Income statements

For the year ended 30 June 2006

		Consolidated		The Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	3	58,888	62,753	–	–
Cost of sales		(39,331)	(48,456)	–	–
Gross profit		19,557	14,297	–	–
Other income	3	4,173	307	2	226
Administrative expenses		(11,134)	(7,151)	(1,119)	(1,721)
Results from operating activities		12,596	7,453	(1,117)	(1,495)
Financial income	6	2,254	579	10,133	390
Financial expenses	6	(292)	(856)	(272)	(785)
Net financing income/(costs)		1,962	(277)	9,861	(395)
Share of profit of joint venture entities accounted for using the equity method	15	2,656	–	–	–
Profit/(loss) before income tax expense		17,214	7,176	8,744	(1,890)
Income tax (expense)/benefit	7	(5,194)	(2,409)	342	117
Profit/(loss) for the year		12,020	4,767	9,086	(1,773)
Attributable to:					
Equity holders of the parent		12,020	4,767	9,086	(1,773)
Profit/(loss) for the year		12,020	4,767	9,086	(1,773)
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	8	10.81 cents	5.53 cents		
Diluted earnings per share from continuing operations	8	10.39 cents	5.33 cents		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 27 to 76.

Statements of changes in equity

For the year ended 30 June 2006

	Issued Capital $'000	Retained Earnings $'000	Equity Compensation Reserve $'000	Total Equity attributable to equity holders of the parent $'000
Company				
Balance at 1 July 2005	39,919	(1,773)	62	38,208
Listing costs recognised directly in equity, net of taxes	(19)	–	–	(19)
Total income and expense for the financial year recognised directly in equity	(19)	–	–	(19)
Profit for the financial year	–	9,086	–	9,086
Total income and expense for the financial year	(19)	9,086	–	9,067
Dividends recognised during the financial year	–	(6,983)	–	(6,983)
Share options exercised by employees	785	–	–	785
Additional contributions of capital	32	–	–	32
Fair value of employee share options	–	–	116	116
Balance at 30 June 2006	40,717	330	178	41,225
Balance at 1 July 2004	–	–	–	–
Issue of capital as consideration for a controlled entity	27,000	–	–	27,000
Issue of capital via an initial public offering	30,383	–	–	30,383
Issue of capital as employee gift shares	49	–	–	49
Shares bought back	(16,000)	–	–	(16,000)
Transaction costs associated with issue of equity instruments recognised directly in equity	(2,162)	–	–	(2,162)
Deferred tax on transaction cost recognised directly in equity	649	–	–	649
Total income and expense for the financial year recognised directly in equity	(1,513)	–	–	(1,513)
Profit for the financial year	–	(1,773)	–	(1,773)
Total income and expense for the financial year	(1,513)	(1,773)	–	(3,286)
Dividends recognised during the financial year	–	–	–	–
Fair value of employee share options		–	62	62
Balance at 30 June 2005	39,919	(1,773)	62	38,208

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 27 to 76.

Statements of changes in equity

For the year ended 30 June 2006

	Issued Capital $'000	Retained Earnings $'000	Equity Compensation Reserve $'000	Foreign Currency Translation Reserve $'000	Total Equity attributable to equity holders of the parent $'000
Consolidated					
Balance at 1 July 2005	20,151	4,181	62	–	24,394
Listing costs recognised directly in equity	(19)	–	–	–	(19)
Total income and expense for the financial year recognised directly in equity	(19)	–	–	–	(19)
Profit for the financial year	–	12,020	–	–	12,020
Total income and expense for the financial year	(19)	12,020	–	–	12,001
Dividends recognised during the financial year	–	(6,983)	–	–	(6,983)
Share options exercised by employees	785	–	–	–	785
Additional contributions of capital	32	–	–	–	32
Fair value of employee share options	–	–	116	–	116
Translation of foreign subsidiary company	–	–	–	(13)	(13)
Balance at 30 June 2006	20,949	9,218	178	(13)	30,332
Balance at 1 July 2004	1,232	546	–	–	1,778
Issue of capital as consideration for a controlled entity	6,000	–	–	–	6,000
Issue of capital via an initial public offering	30,383	–	–	–	30,383
Issue of capital as employee gift shares	49	–	–	–	49
Shares bought back	(16,000)	–	–	–	(16,000)
Transaction costs associated with issue of equity instruments recognised directly in equity	(2,162)	–	–	–	(2,162)
Deferred tax on transaction cost recognised directly in equity	649	–	–	–	649
Total income and expense for the financial year recognised directly in equity	(1,513)	–	–	–	(1,513)
Profit for the financial year	–	4,767	–	–	4,767
Total income and expense for the financial year	(1,513)	4,767	–	–	3,254
Dividends recognised during the financial year	–	(1,132)	–	–	(1,132)
Fair value of employee share options	–	–	62	–	62
Balance at 30 June 2005	20,151	4,181	62	–	24,394

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 27 to 76.

Balance sheets

As at 30 June 2006

		Consolidated		The Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Assets					
Cash and cash equivalents	9	3,361	4,319	744	1,431
Trade and other receivables	10	11,041	42,077	15,995	20,423
Inventories	11	–	36,101	–	–
Other financial assets	12	10,457	14,069	31,967	31,792
Income tax receivable	14	–	475	–	475
Other	13	381	680	170	69
Total current assets		25,240	97,721	48,876	54,190
Investment accounted for using the equity method	15	2,656	–	–	–
Intangible assets	19	13,503	13,503	–	–
Property, plant and equipment	18	882	562	299	–
Deferred tax assets	17	2,254	197	1,397	3,058
Total non-current assets		19,295	14,262	1,696	3,058
Total assets		44,535	111,983	50,572	57,248
Liabilities					
Trade and other payables	20	6,240	11,460	4,774	13,337
Interest-bearing loans and borrowings	21	–	70,393	–	5,703
Non-interest bearing loans	21	2,675	–	–	–
Income tax payable	14	4,571	–	4,571	–
Provisions	23	691	5,707	2	–
Total current liabilities		14,177	87,560	9,347	19,040
Provisions	23	26	29	–	–
Total non-current liabilities		26	29	–	–
Total liabilities		14,203	87,589	9,347	19,040
Net assets		30,332	24,394	41,225	38,208
Equity					
Issued capital	24	20,949	20,151	40,717	39,919
Retained earnings		9,218	4,181	330	(1,773)
Equity compensation reserve	24	178	62	178	62
Foreign currency translation reserve	24	(13)	–	–	–
Total equity attributable to equity holders of the parent		30,332	24,394	41,225	38,208

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 27 to 76.

Statements of cash flows

For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash flows from operating activities					
Cash receipts from customers		96,466	48,117	715	173
Cash paid to suppliers and employees		(26,411)	(59,489)	(1,094)	(103)
Cash generated from operations		70,055	(11,372)	(379)	70
Dividends received		64	–	10,000	193
Dividends paid		–	(321)	–	(321)
Interest received		2,190	620	132	69
Interest paid		(271)	(855)	(272)	(464)
Income taxes paid		(2,199)	(1,500)	(2,199)	(475)
Net cash from operating activities	31	69,839	(13,428)	7,282	(928)
Cash flows from investing activities					
Payment for investments		(1,197)	(539)	(175)	(537)
Acquisition of subsidiary, net of cash acquired		–	474	–	–
Proceeds from/(utilisation of) cash deposits		4,809	(7,319)	–	
Acquisition of property, plant and equipment	18	(720)	(282)	(301)	–
Proceeds from share buy back from controlled entity		–	–	–	853
Net cash from investing activities		2,892	(7,666)	(476)	316
Cash flows from financing activities					
(Repayment of)/proceeds from borrowings		(67,718)	12,322	(5,703)	5,703
Proceeds from related party borrowings		214	(1,045)	4,395	(12,048)
Proceeds from issue of share capital		817	30,432	817	31,040
Transaction costs from issue of shares		(19)	(2,162)	(19)	(1,544)
Payments for share buy back		–	(16,000)	–	(21,108)
Dividends paid		(6,983)	(1,132)	(6,983)	–
Net cash from financing activities		(73,689)	22,415	(7,493)	2,043
Net increase in cash and cash equivalents		(958)	1,321	(687)	1,431
Cash and cash equivalents at 1 July		4,319	2,998	1,431	–
Cash and cash equivalents at 30 June	9	3,361	4,319	744	1,431

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 27 to 76.

Notes to the consolidated financial statements

For the year ended 30 June 2006

Note 1. Significant accounting policies

APN Property Group Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in jointly controlled entities.

The financial report was authorised for issue by the directors on 7 September 2006.

APN Property Group Limited was incorporated on 1 July 2004. On 10 September 2004, APN Property Group Limited acquired APN Development and Delivery Pty Ltd and APN Funds Management Limited. Due to the reverse acquisition accounting treatment adopted under AIFRS (refer Note 34) the comparative period consolidated income statement reflects the trading results of APN Funds Management Limited and APN Property Group Limited for the period 1 July 2004 to 30 June 2005 and the period 10 September 2004 to 30 June 2005 for APN Development and Delivery Pty Ltd.

On 20 June 2005, the Company was admitted to the official list of the Australia Stock Exchange.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 34.

(b) Basis of preparation

The financial report is presented in Australian dollars.
The entity has elected to early adopt the following accounting standards and amendments as at transition date:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 8 *Scope of* AASB 2.

The early adoption of the above standards has not impacted the reported financial position, financial performance, and cashflows of the consolidated entity and the Company.

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity and the Company in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet, AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

Note 1. Significant accounting policies continued

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The following standards and amendments have been issued and are available for early adoption at reporting date. However, they have not been early adopted as they are not applicable to the Company and the consolidated entity and have no impact on their financial results:

- AASB 2006-2 *Amendments to Australian Accounting Standards* (March 2006)
- UIG 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 6 *Liabilities arising from participating in a Specific Market-Waste Electrical & Electronic Equipment*
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies.*

The financial report is prepared on the historical cost basis.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(y).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of transition to Australian Accounting Standards – AIFRS, except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instrument: Recognition and Measurement. The Company and the consolidated entity have applied the AASB 1.36A exemption and elected not to apply AASB 132 and AASB 139 to the comparative period. A reconciliation of opening balances impacted by AASB 132 and AASB 139 at 1 July 2005 has been provided in Note 35.

As the company was incorporated on 1 July 2004, there is no opening transitional AIFRS adjustments to opening retained profits.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

Jointly controlled entities

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

In the Company's financial statements, investments in joint venture entities are carried at cost.

Jointly controlled operations and assets

The interest of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Share of jointly controlled entity net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the jointly controlled entities or, if not consumed or sold by the jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(e) Derivative financial instruments

Current accounting policy

The consolidated entity uses interest rate swaps to hedge its exposure to interest rate risks arising from operating, financing and investing activities. In accordance with its group policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Comparative period policy

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.

(f) Hedging

Current accounting policy

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial

Note 1. Significant accounting policies continued

asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Comparative period policy

(i) Cash flow hedges

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged. These transactions are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amounts receivable or payable under currency, interest rate and commodity swaps, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded in the balance sheet until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest or commodity rates current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains and losses that arose on the hedge prior to its termination are included in the income statement for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. Any gains or losses relating to the hedge instrument are included in the income statement for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the income statement.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment 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 or deemed cost less accumulated depreciation and impairment losses (refer accounting policy m).

The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials and labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

(ii) 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.

(iii) Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are experienced. Contingent rentals are expensed as incurred.

(iv) 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.

(v) Depreciation and amortisation
Items of property, plant and equipment are depreciated over their estimated useful lives as set out below.

Depreciation and amortisation is calculated on a straight line basis so as to write off the costs of each item of property, plant and equipment, excluding land, over its estimated useful life.

The expected useful lives are as follows:
- Plant and equipment: 10 – 40%

The residual value, useful life and the depreciation method applied to an asset are reassessed at least annually.

(h) Accounting for acquisition

Current period policy

(i) Business combinations since 1 July 2004
All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (refer accounting policy m).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Business combinations prior to 1 July 2004
Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Australian GAAP. There are no business combinations that have occurred prior to 1 July 2004 that need to be reconsidered in preparing the consolidated entity and the Company's opening AIFRS balance sheet at 1 July 2004.

(i) Investments

(i) Controlled entities
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 29.

(ii) Other entities
Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount. Refer to Note 15 and Note 16.

(j) Trade and other receivables

Current period policy

(i) Other trade and other receivables
Trade and other receivables are stated at their amortised cost less impairment losses (refer accounting policy m), and are normally settled on 60-day terms.

Comparative period policy
Trade and other receivables are carried at invoice amount.

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Bad debts are written off as incurred.

(k) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Development inventories 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.

(i) 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.

(l) Cash and cash equivalents
Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Impairment

Current period policy
The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy k) and deferred tax assets (see accounting policy u), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy m(i)).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Note 1. Significant accounting policies continued

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is 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.

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

Comparative period policy – financial instruments impairment and derecognition

The carrying amounts of non-current financial assets valued on the cost basis were reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current financial asset exceeded its recoverable amount (i.e. was not considered probable of recovery), the financial asset was written down to the lower amount. The write-down was expensed on the reporting period in which it occurred.

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

In assessing the recoverable amounts of non-current financial assets, the relevant cash flows were discounted to their present value. Impairment losses were reversed through the profit and loss but only to the extent of original cost.

An asset was derecognised when the contractual right to receive or exchange cash no longer existed. A liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(n) Share capital

Current period policy

(i) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(iii) Other financial instruments

Where financial instruments, such as preference shares and convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable at the option of the holder, redeemable at a fixed date or perpetual instruments with cumulative interest obligations, the proceeds received are classified as a liability and related distributions as interest expense.

Where financial instruments are redeemable but either the holder or the Company has an option to convert them into ordinary shares of the Company, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accretes over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

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.

Comparative period policy

(i) Preference share capital

Converting financial instruments, such as converting preference shares, which must convert to ordinary shares are classified as financial liabilities on initial recognition to the extent that holders are not exposed to changes in fair value of the Company's ordinary shares.

Where the conversion rate is fixed as the time of issuing the instruments, the proceeds received are classified as equity and related distributions as dividends.

Where the conversion rate is based on fair market value of the Company's ordinary shares at the date of conversion, the proceeds received are classified as liabilities and related distributions as interest expense.

(ii) Transaction costs

Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(iii) 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.

(o) Interest-bearing borrowings

Current accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Comparative period policy

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".

(p) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Note 1. Significant accounting policies continued

(ii) 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 by the consolidated entity resulting from employees' services provided up to the 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 attached to the 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.

(iii) Defined contribution superannuation funds

The consolidated entity contributes to various defined contribution superannuation plans. Employer contributions to these plans are recognised as an expense as they are made.

(iv) Share-based payment transactions

The Company has introduced a number of share plans pursuant to which senior executives and directors may acquire shares. The fair value of the shares granted is recognised as an employee expense with a corresponding increase in equity where material. The fair value is measured at grant date and spread over the period during which the employee become unconditionally entitled to the shares. The fair value of the shares granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(q) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) 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.

Dividends on redeemable preference shares are recognised as a liability and expressed on an effective interest yield basis. Other dividends are recognised as a liability in the period in which they are declared.

(ii) Provision for construction loss

Where the outcome of a construction 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. A provision for construction loss is recognised immediately as an expense.

(iii) Provision for development loss

Where the outcome of a development project cannot be reliably estimated, project costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. A provision for development loss is recognised immediately as an expense.

(r) Trade and other payables

Current accounting policy

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

Comparative period policy

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

(s) Revenue

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

(i) Funds management services

Revenue comprises management fee income earned from the provision of funds management services net of the amount of GST. Management fee income is recognised on an accruals basis as soon as it becomes due and payable.

(ii) Construction contracts

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

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

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

(iii) Sale of development inventories

Revenue from the sale of development inventories is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(t) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Current accounting policy

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f). Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest rate method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

Comparative period policy

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effects of hedges of borrowing.

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 of swap.

Ancillary costs incurred in connection with the arrangement of borrowings are netted against the relevant borrowings and amortised over their life.

Borrowing costs are expensed as incurred.

(u) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is 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 the balance sheet date, and any adjustment 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 amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor 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 is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is 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 are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004, being the date of incorporation of the Company and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is APN Property Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

Note 1. Significant accounting policies continued

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(v) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(w) Earnings per share

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

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

(x) Goods and services tax

Revenue, 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part 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 balance sheet.

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.

(y) Accounting estimates and judgements

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods is the revision affects both current and future periods.

The estimates and judgements that have a significant risk of causing an adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below.

(z) Impairment of goodwill

The consolidated entity assesses whether goodwill is impaired at least semi annually in accordance with the accounting policy in Note 19. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

Note 19 contains information about the assumptions and their risk factors relating to goodwill impairment.

Note 2. Segment reporting

Segment information is presented in respect of the consolidated entity's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise borrowings and expenses, and corporate assets and expenses.

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

Business segments

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

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

Geographical segments

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

Note 2. Segment reporting continued

Business segments

	Construction & Development		Funds Management		Eliminations		Consolidated	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue								
External segment revenue	34,706	47,833	24,182	14,920	–	–	58,888	62,753
Internal segment revenue	180	–	–	–	(180)	–	–	
Total segment revenue	34,886	47,833	24,182	14,920	(180)	–	58,888	62,753
Unallocated revenue							–	–
Total revenue							58,888	62,753
Results								
Segment result	519	(402)	13,194	9,350	–	–	13,713	8,948
Unallocated expenses							(1,117)	(1,495)
Results from operating activities							12,596	7,453
Net financing income/(costs)							1,962	(277)
Share of profit of joint venture entities accounted for using the equity method			2,656	–			2,656	–
Income tax (expense)/benefit							(5,194)	(2,409)
Profit for the financial year							12,020	4,767
Depreciation and amortisation	41	35	357	84	–	–	398	119
Unallocated depreciation and amortisation							2	–
Total depreciation and amortisation							400	119
Non-cash expenses other than depreciation and amortisation:								
Redundancy provision	–	750	–	–	–	–	–	750
Impairment of goodwill	–	–	–	414	–	–	–	414
Construction loss provision	1,253	2,302	–	–	–	–	1,253	2,302
Development loss provision	327	950	–	–	–	–	327	950

Note 2. Segment reporting continued

Business segments continued

	Construction & Development		Funds Management		Eliminations		Consolidated	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Assets								
Segment assets	17,672	98,556	22,233	14,391	(2,550)	(2,577)	37,355	110,370
Investments accounted for using the equity method	–	–	2,656	–	–	–	2,656	–
Unallocated assets							4,524	1,613
Total assets							44,535	111,983
Liabilities								
Segment liabilities	(4,079)	(87,360)	(7,347)	(2,122)	2,550	2,577	(8,876)	(86,905)
Unallocated liabilities							(5,327)	(684)
Total liabilities							(14,203)	(87,589)
Capital expenditure	8	56	411	222	–	–	419	278
Unallocated capital expenditure							301	–
Total capital expenditure							720	278

Notes to the consolidated financial statements

For the year ended 30 June 2006

Note 3. Revenue

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue – project and construction	20,712	16,342	–	–
Funds management fees	24,182	14,920	–	–
Sale of development inventories	13,994	31,491	–	–
	58,888	62,753	–	–
Other				
Development payment received (Note A)	4,000	–	–	–
Reimbursements received	173	307	2	226
	4,173	307	2	226

Note A: During the financial year, a controlled entity of the parent entity received a development payment amounting to $4,000,000. The payment was received in lieu of rescinding its rights to a development contract of which terms and conditions are subject to a deed of confidentiality.

Note 4. Other expenses

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Project and construction activities (Note B)	21,255	19,363	–	–
Cost of development inventories sold	14,140	26,171	–	–
Depreciation of:				
Plant and equipment	400	127	2	–
Personnel expenses:				
Salaries and wages	5,587	5,341	88	–
Superannuation contributions	286	276	9	–
Shared based payments	116	62	116	62
Provision for long service and annual leave	21	(14)	2	–
Material items of income and expense				
Provision for intercompany loans	–	–	–	1,439
Redundancy provision	–	750	–	–
Impairment of goodwill	–	414	–	–
Development loss provision	327	950	–	–
Construction loss provision	1,253	2,302	–	–

Note B: Included in Project and construction activities are salaries and wages and superannuation of approximately $1,076,000 and $75,000 respectively (2005: $1,693,000 and $112,000) for financial year ended 30 June 2006.

Note 5. Auditors' remuneration

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	204,000	340,000	176,000	50,000
Other regulatory audit services	14,000	–	–	–
	218,000	340,000	176,000	50,000
Other services				
Auditors of the Company				
KPMG Australia:				
Due diligence service	–	150,000	–	150,000
Accounting assistance	22,500	45,000	22,500	45,000
	22,500	195,000	22,500	195,000

Note 6. Net financing cost

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Interest income	2,190	579	133	69
Dividend income	64	–	10,000	321
Financial income	2,254	579	10,133	390
Interest expense	(292)	(856)	(272)	(785)
Financial expense	(292)	(856)	(272)	(785)
Net financing income/(costs)	1,962	(277)	9,861	(395)

Note 7. Income tax expense

Recognised in the income statement

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current tax expense/(benefit)				
Current year	7,240	672	–	(117)
Adjustments for prior years	–	–	–	–
	7,240	672	–	(117)
Deferred tax expense/(benefit)				
Origination and reversal of temporary differences	(3,444)	4,146	78	–
Utilisation of tax losses	1,818	72	–	–
Benefit of tax losses recognised	(420)	(2,481)	(420)	–
	(2,046)	1,737	(342)	–
Total income tax expense/(benefit) in income statement	5,194	2,409	(342)	(117)

Note 7. Income tax expense continued

Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Profit/(loss) before income tax	17,214	7,176	8,744	(1,890)
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	5,164	2,153	2,623	(567)
Increase/(decrease) in income tax expense due to:				
Non-deductible provision for intercompany loans	–	–	–	432
Non-deductible amortisation expenditure	–	124	–	–
Non-assessable dividends received from wholly owned subsidiaries	–	–	(3,000)	(96)
Non-deductible other expenses	30	132	35	114
Income tax expense/(benefit) on pre-tax net profit	5,194	2,409	(342)	(117)
Deferred tax asset recognised directly in equity				
Relating to capital raising cost recognised directly in equity	–	649	–	649

Note 8. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of $12,020,000 (2005: $4,767,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 111,211,000 (2005: 86,255,000), calculated as follows:

	Consolidated	
	2006 $'000	2005 $'000
Earnings reconciliation		
Profit for the financial year	12,020	4,767
Net profit attributable to outside equity interests	–	–
Basic earnings	12,020	4,767

	Consolidated	
	2006 No. of Shares '000	2005 No. of Shares '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	115,049	–
Effect of shares issued under reverse acquisition	–	21,000
Effect of shares issued under limited recourse loans	(4,000)	(2,311)
Effect of shares subdivision	–	59,255
Effect of shares issued on Initial Public Offering	162	832
Effect of shares issued to acquire a subsidiary	–	4,816
Effect of shares issued under the Employee Share Plan	–	3,101
Effect of share buy back	–	(438)
Weighted average number of ordinary shares at 30 June	111,211	86,255

Note 8. Earnings per share continued

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of $12,020,000 (2005: $4,767,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 115,696,000 (2005: 89,466,000), calculated as follows:

	Consolidated	
	2006 $'000	2005 $'000
Earnings reconciliation (diluted)		
Profit for the financial year	12,020	4,767
Net profit attributable to outside equity interests	–	–
Basic and diluted earnings	12,020	4,767

	Consolidated	
	2006 No. of Shares '000	2005 No. of Shares '000
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 30 June	111,211	86,255
Effect of non-vested shares on issue	4,485	3,211
Weighted average number of ordinary shares (diluted) at 30 June	115,696	89,466

Note 9. Cash and cash equivalents

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash at bank and on hand	3,361	4,319	744	1,431
Cash and cash equivalents in the statements of cash flows	3,361	4,319	744	1,431

Note 10. Trade and other receivables

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Trade receivables	6,627	6,712	68	–
Loans to controlled entities	–	–	16,318	20,180
Provision for diminution of intercompany loans	–	–	(1,438)	(1,438)
Net loans to controlled entities	–	–	14,880	18,742
Other debtors	3,030	2,276	11	112
Vendor loans receivables	–	31,491	–	–
Other loans receivables	1,384	1,598	1,036	1,569
	11,041	42,077	15,995	20,423

Other loans receivables include loans to related parties.

Further details of loans to controlled entities are also set out in Note 32.

Note 11. Inventories

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Construction work in progress	–	15,803	–	–
Provision for construction loss	–	(462)	–	–
Construction work in progress net of provision	–	15,341	–	–
Development properties	–	10,566	–	–
Development costs capitalised	–	12,064	–	–
Provision for development loss	–	(1,870)	–	–
Development activities net of provision	–	10,194	–	–
Carrying amount of inventories stated at net realisable value	–	36,101	–	–
Development loss provision				
Carrying amount at beginning of financial year	(1,870)	–	–	–
Provisions made during the financial year	(327)	(950)	–	–
Increase through acquisition of entity	–	(920)	–	–
Provision used during the financial year	1,797	–	–	–
Transfer to provision account	400	–	–	–
Carrying amount at end of financial year	–	(1,870)	–	–

Where the outcome of a development project cannot be reliably estimated, project costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. A provision for development loss is recognised immediately as an expense.

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Construction work in progress				
Balance at beginning of year	15,803	–	–	–
Construction work in progress acquired through the acquisition of an entity	–	8,797	–	–
Constructions costs incurred	14,496	16,831	–	–
Profit recognised	2,245	1,042	–	–
Loss recognised	(1,715)	(3,592)	–	–
Progress billings	(30,829)	(7,275)	–	–
Construction work in progress	–	15,803	–	–
Provision for construction loss				
Balance at beginning of year	(462)	–	–	–
Construction loss provision acquired through the acquisition of an entity	–	(1,752)	–	–
Provisions made during the financial year	(1,253)	(2,302)	–	–
Utilisation of provision	1,715	3,592	–	–
Construction loss provision	–	(462)	–	–
Net construction work in progress	–	15,341	–	–
Retentions on construction projects in progress included in progress billings	–	691	–	–
Advances on constructions projects included in trade creditors	(123)	(3,484)	–	–

Note 11. Inventories continued

Where the outcome of a construction 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. A provision for construction loss is recognised immediately as an expense.

Note 12. Other financial assets

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Investments in related parties	1,737	540	31,967	31,792
Investments in cash deposits	8,720	13,529	–	–
	10,457	14,069	31,967	31,792

Short-term deposits

Short-term deposits mature within 30 days and pay interest at a weighted average interest rate of 5.67% (2005:5.33%) at 30 June 2006.

Note 13. Other current assets

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Accrued income	160	483	4	69
Prepayments	221	197	166	–
	381	680	170	69

Note 14. Current tax assets and liabilities

The current tax asset for the consolidated entity of Nil (2005: $475,000) and for the Company of Nil (2005: $475,000) represent the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the consolidated entity of $4,571,000 (2005: Nil) and for the Company of $4,571,000 (2005: Nil) represent the amount of income taxes payable in respect of current and prior financial years. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability/asset initially recognised by the members in the tax-consolidated group.

Note 15. Investments accounted for using the equity method

(a) Interest in jointly controlled entity

In the financial statements of the consolidated entity, the interest in the jointly controlled entity is accounted for at cost. The consolidated entity accounts for its interest in jointly controlled entity using the equity method.

The consolidated entity has the following interest in the jointly controlled entity:

	Principal activities	Place of incorporation	Reporting Date	Ownership 2006	Ownership 2005
APN/UKA Management Limited	Funds management	The Isle of Man	30 June 2006	50%	N.A.

Notes to the consolidated financial statements

For the year ended 30 June 2006

Note 15. Investments accounted for using the equity method continued

	Revenues (100%)	Profit/ (loss) (100%)	Share of jointly controlled entity's net profit/(loss) recognised	Total Assets (100%)	Total Liabilities (100%)	Net assets as reported by jointly controlled entity (100%)	Share of jointly controlled entity's net assets equity accounted
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2006							
APN/UKA Management Limited	7,643	5,312	2,656	5,723	(411)	5,312	2,656

Results of jointly controlled entity

	Consolidated	
	2006 $'000	2005 $'000
Share of jointly controlled entity's profit before income tax	2,656	–
Share of income tax expense	–	–
Share of jointly controlled entity's net profit- as disclosed by jointly controlled entity	2,656	–
Share of jointly controlled entity's net profit accounted for using the equity method	2,656	–

Note 16. Interest in joint venture operations

In the financial year ended 30 June 2005, the consolidated entity held an interest of 50% in an unincorporated joint venture operation named 380 La Trobe Street Joint Venture, whose principal activity was the construction, development and subsequent sale of the development property at 380 La Trobe Street, Melbourne Victoria 3000.

For the financial year ended 30 June 2006, the joint venture was dissolved upon the completion of the construction and development project.

Included in the assets and liabilities of the consolidated entity for financial year ended 30 June 2005 were the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 1.

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets				
Land	–	1,487	–	–
Capitalised development costs	–	1,665	–	–
Capitalised construction costs	–	8,773	–	–
Disclosed as inventories – development properties	–	11,925	–	–
Vendor loans receivable	–	31,491	–	–
Total current assets	–	43,416	–	–
Payables	–	(1,298)	–	–
Interest bearing liability	–	(29,500)	–	–
Loans – other	–	(500)	–	–
Total current liabilities	–	(31,298)	–	–

Note 17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Consolidated						
Construction and development activities	–	792	–	–	–	792
Deferred construction profits	–	419	–	–	–	419
Development expenditure	120	–	–	(3,624)	120	(3,624)
Deferred development profit	–	–	–	(605)	–	(605)
Provisions and accruals	761	157	–	–	761	157
Prepayments	–	–	(50)	–	(50)	–
Capital raising cost recognised directly in equity	525	649	–	–	525	649
Tax value of loss carry-forwards recognised	898	2,409	–	–	898	2,409
Net tax assets/(liabilities)	2,304	4,426	(50)	(4,229)	2,254	197
The Company						
Provisions and accruals	24	–	–	–	24	–
Prepayments	–	–	(50)	–	(50)	–
Capital raising cost recognised directly in equity	525	649	–	–	525	649
Tax value of loss carry-forwards recognised	898	2,409	–	–	898	2,409
Net tax assets/(liabilities)	1,447	3,058	(50)	–	1,397	3,058

Unrecognised deferred tax assets

There are no unrecognised deferred tax assets at 30 June 2006 and 30 June 2005.

Note 18. Property, plant and equipment

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Buildings				
At cost	11	11	–	–
Accumulated depreciation	–	–	–	–
	11	11	–	–
Leasehold improvements				
At cost	259	190	63	–
Accumulated depreciation	(198)	(50)	(2)	–
	61	140	61	–
Plant and equipment				
At cost	1,488	837	238	–
Accumulated depreciation	(678)	(426)	–	–
	810	411	238	–
Net property, plant and equipment	882	562	299	–

Note 18. Property, plant and equipment continued

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reconciliations				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
Buildings				
Carrying amount at beginning of financial year	11	–	–	–
Acquisition through business combination	–	11	–	–
Additions	–	–	–	–
Disposals	–	–	–	–
Depreciation	–	–	–	–
Carrying amount at end of financial year	11	11	–	–
Leasehold improvements				
Carrying amount at beginning of financial year	140	163	–	–
Acquisition through business combination	–	20	–	–
Additions	69	–	63	–
Disposals	–	–	–	–
Depreciation	(148)	(43)	(2)	–
Carrying amount at end of financial year	61	140	61	–
Plant and equipment				
Carrying amount at beginning of financial year	411	70	–	–
Acquisition through business combination	–	143	–	–
Additions	651	282	238	–
Disposals	–	–	–	–
Depreciation	(252)	(84)	–	–
Carrying amount at end of financial year	810	411	238	–

Note 19. Intangible assets

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Goodwill				
Cost				
Balance at beginning of financial year	13,503	–	–	–
Acquisitions through business combinations	–	13,503	–	–
Balance at end of financial year	13,503	13,503	–	–
Amortisation and impairment losses				
Balance at beginning of financial year	–	–	–	–
Impairment charge	–	–	–	–
Balance at end of financial year	–	–	–	–
Carrying amount				
Balance at beginning of financial year	13,503	–	–	–
Balance at end of financial year	13,503	13,503	–	–

Note 19. Intangible assets continued

Impairment tests for cash generating units containing goodwill

In accordance with AASB 3 "Business Combinations" the acquisition by APN Property Group Limited of APN Funds Management Limited and APN Development and Delivery Pty Ltd has been accounted for as a reverse acquisition and the acquirer has been identified as APN Funds Management Limited for the purpose of AIFRS.

The goodwill of $13,503,000 (2005: $13,503,000) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired for APN Development and Delivery Pty Ltd.

The recoverable amount of APN Development and Delivery Pty Ltd cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further 5 year period which are extrapolated using a growth rate appropriate for markets and industries in which APN Development and Delivery Pty Ltd operates. A pre-tax discount rate of 9% has been used in discounting the projected cash flows.

Note 20. Trade and other payables

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Trade payables	1,370	6,031	88	609
Retentions withheld	227	664	–	–
Related party loans owing	–	–	4,401	12,639
Other creditors and accruals	4,643	4,765	285	89
	6,240	11,460	4,774	13,337

Note 21. Interest/Non-interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing and non-interest bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, refer to Note 25.

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current – Interest bearing				
Bank loans – secured	–	63,193	–	5,703
Loan from related party	–	7,200	–	–
	–	70,393	–	5,703
Current – Non-interest bearing				
Loan from related party – unsecured	2,675	–	–	–

Preference Shares

'A' class redeemable preference shares

	Consolidated	The Company
	$'000	$'000
Movement during the financial year		
Balance at 1 July 2004	–	–
10 September 2004 new share issue – 4,620,000 shares issued as consideration for the acquisition of controlled entities	4,620	4,620
9 November 2004 share buy back – 853,000 shares bought back	(853)	(853)
21 June 2005 share buy back – 3,767,000 shares bought back	(3,767)	(3,767)
Balance at 30 June 2005	–	–
Balance at 1 July 2005/30 June 2006	–	–

Note 21. Interest/Non-interest-bearing loans and borrowings continued

'B' class redeemable preference shares

	Consolidated	The Company
	$'000	$'000
Movement during the financial year		
Balance at 1 July 2004	–	–
10 September 2004 new shares issue – 487,500 shares issued as consideration for the acquisition of controlled entities	488	488
21 June 2005 share buy back – 487,500 shares bought back	(488)	(488)
Balance at 30 June 2005	–	–
Balance at 1 July 2005/30 June 2006	–	–

Financing arrangements

The Company has access to the following lines of credit:

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total facilities available:				
Bank loans	5,000	6,000	5,000	6,000
Project funding facilities	10,000	54,110	10,000	–
Loan from related party	2,675	7,200	–	–
Other loans	–	5,500	–	–
	17,675	72,810	15,000	6,000
Facilities utilised at balance date				
Bank loans	–	5,703	–	5,703
Project funding facilities	–	51,990	–	–
Loan from related party	2,675	7,200	–	–
Other loans	–	5,500	–	–
	2,675	70,393	–	5,703
Facilities not utilised at balance date				
Bank loans	5,000	297	5,000	297
Project funding facilities	10,000	2,120	10,000	–
Loan from related party	–	–	–	–
Other loans	–	–	–	–
	15,000	2,417	15,000	297

Bank loans

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

Bank guarantees

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

Project specific guarantees

A bank guarantee for $810,500 (2005: $810,500) in favour of CAFL has been provided as security for construction retentions relating to the Liverpool Street construction contract.

A bank guarantee for $690,750 (2005: $690,750) in favour of Mutual Help Limited has been provided as security for construction retentions relating to the Emmy Monash construction contract.

Other

As security for the entity's obligations as tenant of its primary place of business, there is a bank guarantee in place up to the value of $150,000 (2005: $150,000).

Note 22. Employee benefits

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Liability for annual leave	291	308	2	–
Non Current				
Liability for long service leave	26	29	–	–

(a) Superannuation Plan

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

(b) Share based payments

APN Property Group Limited Senior Executive Share Plan No. 1/APN Property Group Employee Share Purchase Plan (the 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 (the Plan).

Each participant in the Plan may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee of the plan. At the discretion of the directors, shares offered under the plan may either require that any dividends received in respect of the shares held on trust be first be used to repay the loan, or that the participant be fully entitled to dividends as ordinary shareholders. In substance, this arrangement is similar to an option to purchase shares in the Company.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

On 10 September 2004, 756,348 share options were issued to senior executives under the Plan. On 28 April 2005, as part of the share sub division, the number of shares became 2,452,459. During the financial year, the loans outstanding on these shares had been fully repaid.

On 20 June 2005, 645,000 share options were issued to eligible employees under the Plan. These include 285,000 share options to senior executives of the Company and the consolidated entity. These share options fully vest at grant date but the senior executives are restricted from selling them for a period of 2 years. All share options offered as part of this issue were funded by an interest free loan from the Company and any dividends received in respect of the shares are applied to the repayment of the loan.

On 28 February 2006, 2,000,000 shares options were issued to the senior executives under the Plan. Of the 2,000,000 shares options issued, 500,000 vested at grant date.

The remaining 1,500,000 are subject to forfeiture and are therefore restricted. They will vest (to a maximum of 500,000 for each calendar year) if certain equity measures and net fund inflows criteria are met for the calendar year 2006, 2007 and 2008.

The equity measures and net fund inflows criteria are chosen as they are good indicators of the consolidated entity's growth in earnings and are aligned to shareholder wealth objectives. In assessing whether the equity measures and net fund inflows criteria have been achieved, the Nomination and Remuneration Committee review the targets against actual achieved equity measures and net fund inflows.

All shares options offered as part of this issue are funded by an interest free loan from the Company. All options issued allow the participant to be fully entitled to dividends as ordinary shareholders.

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $94,634 (2005: $Nil).

Clive Appleton Share Trust

On 10 September 2004, 3,084,039 share options in the Company were issued for the benefit of Mr Clive Appleton, the Managing Director of the Company under a separate plan. On 28 April 2005, as part of the share sub division, the number of shares became 10,000,001.

The shares issued to Mr Clive Appleton are held by APN Property Group Nominees Pty Limited (Trustee) as trustee for the Clive Appleton Share Trust (Trust). The Trust was established by deed dated 10 September 2004. The Trustee holds 10,000,001 Shares for the benefit of Lesinca Pty Limited in its capacity as trustee for the Lesinca Trust (an entity controlled by Clive Appleton) (Beneficiary). The Company lent

Note 22. Employee benefits continued

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. In substance, this arrangement is similar to an option to purchase shares in the Company.

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

Of the 10,000,001 shares options issued to Mr Clive Appleton, 6,000,000 vested upon the successful listing of the Company on the ASX in 2005 and an additional 2,000,000 vested upon the achievement of certain profit targets for 30 June 2006. The remaining share options of 2,000,001 are subject to forfeiture and are therefore restricted. They will vest (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The profit targets are chosen as it is a good indicator of the Company's growth in earnings and is aligned to shareholder wealth objectives. In assessing whether the profit targets have been achieved, the Nomination and Remuneration Committee reviews the targets against actual achieved profit numbers.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $83,200 (2005: $62,400).

APN Property Group Director/Executive Option Plan

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

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

As at 30 June 2006, no options had been issued under this scheme.

APN Property Group Employee Share Gift Plan

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

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

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

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

On 20 June 2005 and 29 June 2006, 49 and 32 qualifying employees were each issued $1,000 of shares as part of the Employee Gift Plan, respectively. For the year ended 30 June 2006, $31,797 (2005: $49,000) has been recognised as employee expenses and $31,797 (2005: $49,000) in contributed equity.

The terms and conditions of the above grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employee entitled	Number of instruments	Vesting conditions
10 September 2004/Shares granted to key management	3,084,039	Achieving certain profit target for the Company for financial years 2006 and 2007.
10 September 2004/Shares granted to senior executives	756,348	Grant fully exercised at 30 June 2006.
28 April 2005/Share subdivision of the shares granted to key management on 10 September 2004	6,915,962	Achieving certain profit target for the Company for financial years 2006 and 2007.
28 April 2005/Share subdivision of the shares granted to senior executives on 10 September 2004	1,696,111	Grant fully exercised at 30 June 2006.
20 June 2005/Shares granted to other employees	645,000	Two years of service
28 February 2006/Shares granted to key management personnel	2,000,000	One quarter upon issuance of grant, and the remaining three quarters by the end of calendar year 2006, 2007 and 2008
	15,097,460	

These share options expire on the termination of the individual directors and executives employment.

Note 22. Employee benefits continued

	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the financial year	$0.34	13,097,460	–	–
Forfeited during the financial year	–	–	–	–
Exercised during the financial year	$0.32	(2,480,931)	–	–
Granted during the financial year	$1.95	2,000,000	$0.34	13,097,460
Outstanding at the end of the financial year	$0.60	12,616,529	$0.34	13,097,460
Exercisable at the end of the financial year		8,500,001		6,000,000

The options outstanding at 30 June 2006 have an exercise price in the range of $0.34 to $1.95.

During the financial year, 2,480,931 share options were exercised (2005: Nil). The weighted average share price at the dates of exercise was $2.11.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binominal lattice model.

	Key Management personnel 2006		Key Management personnel 2005
	28 February 2006	10 September 2004	10 September 2004
Date of issue			
Fair value of share and assumptions	$	$	$
Fair value at measurement date	94,634	115,434	62,400
Share price	$1.95	$0.31	$0.31
Exercise price	$1.95	$0.31	$0.31
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	32.3%	25.0%	25.0%
Expected dividends	3.15%	6.57%	6.57%
Risk-free interest rate (based on national government bonds)	5.63%	5.15%	5.15%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the option), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Share options granted in 2005 – equity settled	21	62	21	62
Share options granted in 2006- equity settled	95	–	95	–
Total expense recognised as employee costs	116	62	116	62

Voluntary Escrow

In the 2005 Annual Report, the Directors specified that the escrowed security holders, being, Christopher Aylward, Clive Appleton and Howard Brenchley have each entered into a voluntary escrow deed with the Company pursuant to which they agree not to sell, transfer or otherwise dispose of their interests in the escrowed securities for an escrow period.

Upon the release of the Company's financial results for the financial year ended 30 June 2006, the holding locks and/or transfer restrictions to the escrowed securities have been released.

Note 23. Provisions

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current				
Dividends	–	5,399	–	–
Employee entitlements	291	308	2	–
Provision for development project (Note C)	400	–	–	–
	691	5,707	2	–
Non-current				
Employee entitlements	26	29	–	–
Reconciliations				
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:				
Dividends				
Carrying amount at beginning of financial year	5,399	–	–	–
Provisions made during the financial year	–	–	–	–
Increase through acquisition of entity	–	5,399	–	–
Provision used during the financial year	(5,399)	–	–	–
Carrying amount at end of financial year	–	5,399	–	–

Note C: This relates to a provision for costs anticipated to be incurred during the defect period for projects completed during the financial year.

Note 24. Share capital and reserves

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Issued and paid-up share capital				
117,063,528 (2005: 115,049,000) ordinary shares, fully paid	20,949	20,151	40,717	39,919
	20,949	20,151	40,717	39,919

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares

Movement during the financial year

	Consolidated No. of Shares '000	The Company No. of Shares '000
Balance at 1 July 2004	–	–
Shares issued as consideration for the acquisition of controlled entities	27,000	27,000
Shares issued under the APN Property Group Employee Share Purchase Plan	3,840	3,840
Share subdivision – 3.2425 to 1 ratio	100,000	100,000
Shares issued via an Initial Public Offering	31,000	31,000
Employee gift shares issued	49	49
Share buy back	(16,000)	(16,000)
Balance at 30 June 2005	115,049	115,049

Note 24. Share capital and reserves continued

	Consolidated	The Company
	No. of Shares '000	No. of Shares '000
Balance at 1 July 2005	115,049	115,049
Shares issued under the APN Property Group Employee Share Purchase Plan	2,000	2,000
Employee gift shares issued	14	14
Balance at 30 June 2006	117,063	117,063

Employee Share Acquisition Plans

On 10 September 2004, the Company issued 3,840,386 shares to the employee share acquisition plans. Of this amount, 3,084,038 shares were issued to the Clive Appleton Share Trust and 756,348 to the APN Property Group Senior Executive Share Plan No 1.

On 20 June 2005, 645,000 shares were issued to eligible employees. During the financial year, 2,000,000 shares were issued to executives. For further information relating to the employee share acquisition plans refer to Note 22.

Employee ownership plan

Prior to the IPO, the Board of the Company established the APN Property Group Employee Share Gift Plan. As part of the IPO, qualifying employees were offered 1,000 ordinary shares as part of the plan. The number of qualifying employees offered shares under the scheme were 49 and 32 for financial year ended 30 June 2005 and 30 June 2006, respectively. The total value of the shares gifted was $49,000 and $32,000 for financial year ended 30 June 2005 and 30 June 2006, respectively.

Terms and conditions

Ordinary shares

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

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

Equity compensation reserve

The equity compensation reserve represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statement. This reserve will be reversed against the share capital when the underlying share options are exercised. No gain or loss is recognised in profit and loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $'000	Franked/unfranked	Date of payment
2006				
Interim 2006 ordinary	2.0	2,301	100% Franked	[2] 31 October 2005
Interim 2006 ordinary	4.0	4,682	100% Franked	[1] 11 April 2006
Total amount		6,983		
2005				
Ordinary shares				
No Dividends Declared				

1 Paid out of AIFRS profit
2 Paid out of AGAAP profits

Note 24. Share capital and reserves continued

Franked dividends declared or paid during the year were franked at the tax rate of 30% (2005: 30%).

After the balance sheet date the following dividends were declared by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

	Cents per share	Total amount $'000	Franked/unfranked	Date of payment
Final 2006 ordinary	4.0	4,682	100% Franked	13 October 2006
Total amount		4,682		

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 30 June 2006 and will be recognised in subsequent financial reports.

Dividend franking account

	The Company	
	2006 $'000	2005 $'000
Dividend franking account		
30 per cent franking credits available to shareholders of APN Property Group Limited for subsequent financial years	4,784	3,321

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

(a) franking credits that will arise from the payment of the current tax liabilities;

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

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $1,406,000 (2005: $690,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $2,198,000 (2005: $3,321,000) franking credits.

Note 25. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the consolidated entity. Transactions involving derivative financial instruments are with counterparties with whom the consolidated entity has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

For the purposes of managing its interest rate risk, the consolidated entity may enter into interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure within the consolidated entity's policy. At 30 June 2006, there are no interest rate swaps in place.

Note 25. Financial instruments continued

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

	Effective interest rate	Floating interest rate	← Fixed interest rate maturing in → 6 months or less	6-12 months	1-2 years	2-5 years	Non-interest bearing	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated								
2006								
Financial assets								
Cash assets	5.5%	3,361	–	–	–	–	–	3,361
Receivables		–	–	–	–	–	9,657	9,657
Receivables – other loans		–	–	–	–	–	1,384	1,384
Investment in cash deposits	5.67%	8,720	–	–	–	–	–	8,720
Investment in related parties		–	–	–	–	–	1,737	1,737
Other assets		–	–	–	–	–	381	381
		12,081	–	–	–	–	13,159	25,240
Financial liabilities								
Payables		–	–	–	–	–	6,240	6,240
Loans from related parties		–	–	–	–	–	2,675	2,675
Income tax payable		–	–	–	–	–	4,571	4,571
		–	–	–	–	–	13,486	13,486
Consolidated								
2005								
Financial assets								
Cash assets	1.0%	4,319	–	–	–	–	–	4,319
Current tax assets		–	–	–	–	–	475	475
Receivables		–	–	–	–	–	8,988	8,988
Receivables – vendor loans	7.35%	–	–	31,491	–	–	–	31,491
Receivables – other loans		–	–	–	–	–	1,598	1,598
Investment in cash deposits	5.33%	13,529	–	–	–	–	–	13,529
Investment in related parties		–	–	–	–	–	540	540
Other assets		–	–	–	–	–	680	680
		17,848	–	31,491	–	–	12,281	61,620
Financial liabilities								
Payables		–	–	–	–	–	11,460	11,460
Project related loan	9.1%	46,788	–	5,500	–	–	–	52,288
Subordinated loan	20.0%	5,202	–	–	–	–	–	5,202
Loans from related parties	11.5%	–	–	7,200	–	–	–	7,200
Bank working capital facility	8.3%	5,703	–	–	–	–	–	5,703
Dividend		–	–	–	–	–	5,399	5,399
		57,693	–	12,700	–	–	16,859	87,252

Note 25. Financial instruments continued

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

	Effective interest rate	Floating interest rate	← Fixed interest rate maturing in → 6 months or less	6-12 months	1-2 years	2-5 years	Non-interest bearing	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Company								
2006								
Financial assets								
Cash assets	5.5%	744	–	–	–	–	–	744
Receivables		–	–	–	–	–	14,959	14,959
Receivables – other loans		–	–	–	–	–	1,036	1,036
Investment in related parties		–	–	–	–	–	1,737	1,737
Other assets		–	–	–	–	–	170	170
		744	–	–	–	–	17,902	18,646
Financial liabilities								
Payables		–	–	–	–	–	4,774	4,774
		–	–	–	–	–	4,774	4,774
Company								
2005								
Financial assets								
Cash assets	1%	1,431	–	–	–	–	–	1,431
Receivables		–	–	–	–	–	18,854	18,854
Receivables – other loans		–	–	–	–	–	1,569	1,569
Investment in related parties		–	–	–	–	–	540	540
Other assets		–	–	–	–	–	69	69
		1,431	–	–	–	–	21,032	22,463
Financial liabilities								
Payables		–	–	–	–	–	13,337	13,337
Bank working capital facility	8.30%	5,703	–	–	–	–	–	5,703
		5,703	–	–	–	–	13,337	19,040

Fair values

Valuation approach

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

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

Note 26. Operating leases

Future non-cancellable operating lease rentals of property, plant and equipment, not provided for in the financial statements and payable:

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Less than one year	979	282	853	–
Between one and five years	3,780	184	3,277	–
More than five years	7,490	–	6,892	–
	12,249	466	11,022	–

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

Note 27. Capital and other commitment

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
At call investment commitments				
Future investment commitments to the APN Development Fund No 1 and APN/UKA European Retail Fund:				
Within one year	4,486	4,463	4,486	4,463
One year or later and no later than five years	–	–	–	–
Later than five years	–	–	–	–
	4,486	4,463	4,486	4,463
Employee compensation commitments				
Key management personnel				
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:				
Within one year	1,350	1,350	1,350	1,350
One year or later and no later than five years	675	2,025	675	2,025
Later than five years	–	–	–	–
	2,025	3,375	2,025	3,375

Note 28. Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below.

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 related parties of their contractual and financial obligations.

Notes to the consolidated financial statements

For the year ended 30 June 2006

Note 29. Consolidated entities

		Ownership interest	
	Country of Incorporation	2006	2005
Legal parent entity			
APN Property Group Limited			
Subsidiaries			
APN Funds Management Limited *	Australia	100%	100%
APN Funds Management (UK) Limited	United Kingdom	100%	N.A.
APN Development and Delivery Pty Limited	Australia	100%	100%
FM Management Services Pty Limited	Australia	100%	100%
APN Group Pty Limited	Australia	100%	100%
APN Property Group Nominees Pty Limited	Australia	100%	100%
Australian Property Network (Vic) Pty Limited	Australia	100%	100%
APN No 1 Pty Limited	Australia	100%	100%
APN No 3 Pty Limited	Australia	100%	100%
APN No 4 Pty Limited	Australia	100%	100%
APN No 5 Pty Limited	Australia	100%	100%
APN No 6 Pty Limited	Australia	100%	100%
APN No 7 Pty Limited	Australia	100%	100%
APN No 8 Pty Limited	Australia	100%	100%
APN No 9 Pty Limited	Australia	100%	100%
APN No 10 Pty Limited	Australia	100%	100%
APN No 11 Pty Limited	Australia	100%	100%
APN No 12 Pty Limited	Australia	100%	100%
APN No 13 Pty Limited	Australia	100%	100%
APN No 14 Pty Limited	Australia	100%	100%
APN No 15 Pty Limited	Australia	100%	100%

* APN Property Group Limited was incorporated on 1 July 2004. On 10 September 2004, APN Property Group Limited acquired APN Development and Delivery Pty Ltd and APN Funds Management Limited. Due to the reverse acquisition accounting treatment adopted under AIFRS (refer Note 34) the comparative period consolidated income statement reflects the trading results of APN Funds Management Limited and APN Property Group Limited for the period 1 July 2004 to 30 June 2005 and the period 10 September 2004 to 30 June 2005 for APN Development and Delivery Pty Ltd.

Accordingly, in the consolidated results, APN Funds Management Limited is deemed to be the accounting parent.

Note 30. Incorporation of subsidiary

On 15 February 2006, the consolidated entity incorporated APN Funds Management (UK) Limited, with a $2,484 (£1,000) share capital contribution.

Note 31. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flows from operating activities				
Profit/(loss) for the period	12,020	4,767	9,086	(1,773)
Add/(less) non-cash items:				
Depreciation of property, plant and equipment	400	127	2	–
Impairment of goodwill	–	414	–	–
Impairment of intangibles	–	27	–	
Provision for employee benefits	21	(14)	2	–
Employee share option expense	116	62	116	62
Development loss provision	327	950	–	–
Construction loss provision	1,253	2,302	–	–
Redundancy provision	–	750	–	–
Share of profits from jointly controlled entity	(2,656)	–	–	–
Provision against intercompany loans	–	–	–	1,438
Operating profit before changes in working capital and provisions	11,481	9,385	9,206	(273)
(Increase)/decrease in trade receivables	85	(5,713)	(68)	–
(Increase)/decrease in related party debtors	31,491	(28,514)	–	947
(Increase)/decrease in other debtors	(754)	217	101	(112)
(Increase)/decrease in inventories	34,521	10,044	–	–
(Increase)/decrease in accrued income and prepayments	299	(417)	(101)	(41)
(Decrease)/increase in provisions	(5,040)	(750)	–	–
(Decrease)/increase in payables	(5,233)	1,364	(8,563)	89
(Increase)/decrease in deferred tax assets	(2,057)	1,797	1,661	(1,064)
Increase/(decrease) in provision for income tax	5,046	(841)	5,046	(474)
Net cash from operating activities	69,839	(13,428)	7,282	(928)

Note 32. Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Andrew Cruickshank
Michael Butler (appointed 12 December 2005)

Executive directors
Christopher Aylward (Executive Chairman)
Clive Appleton (Managing Director)
Howard Brenchley (Chief Investment Officer)

Executives
John Freemantle (Chief Financial Officer)
Michael Doble (appointed executive Director of APN Funds Management Limited on 12 December 2005)
Charles Raymond (appointed executive Director of APN Funds Management Limited on 12 December 2005)
Warren Boothman
Michael Hodgson

Note 31. Reconciliation of cash flows from operating activities continued

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' are as follows:

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
Short-term employee benefits	3,025,230	2,938,083	1,864,873	2,216,682
Other long term benefits	–	–	–	–
Post-employment benefits	106,816	105,493	70,399	74,393
Termination benefits	–	–	–	–
Share-based payments	120,434	66,400	22,800	63,400
	3,252,480	3,109,976	1,958,072	2,354,475

Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives.

Compensation levels for key management personnel of the Company, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Nomination and Remuneration Committee obtains independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

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

- The capability and experience of the key management personnel
- The key management personnel's ability to control the relevant segments' performance
- The consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
- The amount of incentives within each key management person's compensation.

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

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel. Retirement benefits payable to directors are covered by a separate retirement scheme described below.

Compensation of non-executive directors

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

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

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

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

Fixed compensation

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

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

Note 32. Related parties continued

Performance-linked compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided through offering shares in the Company via the APN Property Group Employee Share Purchase Plan (the Plan) (refer to Note 22).

Short-term incentive bonus

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

The financial performance objectives are based on the underlying performance and certain profit measures of relevant business areas compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, customer satisfaction and staff development.

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

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

Fully vested bonuses of $549,274(2005: $175,000) were paid to the specified key management personnel during the financial year.

Long-term incentive

Each participant in the Plan may fund the purchase of shares by way of a loan made by the Company (it is expected that all share purchases will be funded by a loan from the Company). There is no interest payable on any such loan and the loan is limited recourse, with the recourse limited to the net proceeds from the sale of the shares. Shares funded by way of a loan from the Company will be held on trust by the Trustee of the plan. At the discretion of the directors, shares offered under the plan may either require that any dividends received in respect of the shares held on trust be first be used to repay the loan, or that the participant be fully entitled to dividends as ordinary shareholders. In substance, this arrangement is similar to an option to purchase shares in the Company.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

During the financial year ended 30 June 2005, 645,000 share options were issued to eligible employees under the Plan. These include 285,000 share options to senior executives of the Company and the consolidated entity. These share options fully vest at grant date but the senior executives are restricted from selling them for a period of 2 years. All share options offered as part of this issue were funded by an interest free loan from the Company and any dividends received in respect of the shares are applied to the repayment of the loan.

On 28 February 2006, 2,000,000 shares options were issued to the senior executives under the Plan. Of the 2,000,000 shares options issued, 500,000 vested at grant date.

The remaining 1,500,000 are subject to forfeiture and are therefore restricted. They will vest (to a maximum of 500,000 for each calendar year) if certain equity measures and net fund inflows criteria are met for the calendar year 2006, 2007 and 2008.

The equity measures and net fund inflows criteria are chosen as they are good indicators of the consolidated entity's growth in earnings and are aligned to shareholder wealth objectives. In assessing whether the equity measures and net fund inflows criteria have been achieved, the Nomination and Remuneration Committee review the targets against actual achieved equity measures and net fund inflows.

All shares options offered as part of this issue are funded by an interest free loan from the Company. All options issued allow the participant to be fully entitled to dividends as ordinary shareholders.

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $94,634 (2005: $Nil).

On 10 September 2004, 3,084,039 share options in the Company were issued for the benefit of Mr Clive Appleton, the Managing Director of the Company under a separate plan. On 28 April 2005, as part of the share sub division, the number of shares became 10,000,001.

Note 32. Related parties continued

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

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

Of the 10,000,001 shares options issued to Mr Clive Appleton, 6,000,000 vested upon the successful listing of the Company on the ASX in 2005 and an additional 2,000,000 vested upon the achievement of certain profit targets for 30 June 2006. The remaining share options of 2,000,001 are subject to forfeiture and are therefore restricted. They will vest (on a sliding scale) if certain profit targets are met for the 30 June 2007 year.

The profit targets are chosen as it is a good indicator of the Company's growth in earnings and is aligned to shareholder wealth objectives. In assessing whether the profit targets have been achieved, the Nomination and Remuneration Committee reviews the targets against actual achieved profit numbers.

Once shares issued under the Plan are unrestricted, the unrestricted shares may be dealt with as follows:

- the Beneficiary may repay the loan outstanding with respect to those shares and direct the Trustee to transfer those shares to the Beneficiary; or
- the Beneficiary may direct the Trustee to sell the unrestricted shares and pay to the Beneficiary the sales proceeds less the loan outstanding with respect to those shares and any costs incurred by the Trustee resulting from the sale.

At 30 June 2006, the fair value of the share options issued under this arrangement included in equity compensation reserve was $83,200 (2005: $62,400).

At 30 June 2006, the senior executives were also issued 2,270 (2005: 4,000) gift shares under the APN Property Group Employee Share Gift Plan and the fair value of the shares issued under these arrangements included in remuneration was $5,000 (2005: $4,000).

Retention/retirement benefits

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

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

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

Executive and Senior Management service agreements

Remuneration and other terms of employment for the key management personnel are formalised in service agreements or letters of employment.

Each of these agreements provide for various conditions including:

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

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

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

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

Note 32. Related parties continued

Key management personnel's remuneration (Company and Consolidated)

Details of the nature and amount of each major element of remuneration of each key management personnel of the Company and the consolidated entity are:

		Short-term				Post-employment	Share-based payments				
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Gift shares	Options (B)	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		$	$(A)	$	$	$	$	$	$	%	%
Directors											
Non-executive Directors											
Michael Butler (Independent)	2006	58,104	–	–	58,104	5,229	–	–	63,333	–	–
	2005	–	–	–	–	–	–	–	–	–	–
Andrew Cruickshank (not considered independent)	2006	91,743	–	–	91,743	8,257	–	–	100,000	–	–
	2005	331,038	–	42,382	373,420	16,154	–	–	389,574	–	–
Executive Directors											
Christopher Aylward, Executive Chairman	2006	183,486	–	–	183,486	16,514	–	–	200,000	–	–
	2005	358,389	–	61,298	419,687	23,170	–	–	442,857	–	–
Clive Appleton, Managing Director	2006	644,926	–	–	644,926	12,139	–	20,800	677,865	3.1%	3.1%
	2005	684,639	–	–	684,639	11,585	–	62,400	758,624	8.2%	8.2%
Howard Brenchley, Chief Investment Officer	2006	481,877	–	–	481,877	12,139	–	–	494,016	–	–
	2005	525,749	–	–	525,749	11,585	–	–	537,334	–	–
Executives											
Warren Boothman (APN PG, General Manager, Corporate)	2006	185,406	120,000	–	305,406	12,139	1,000	–	318,545	37.7%	–
	2005	176,713	50,000	–	226,713	11,899	1,000	–	239,612	20.9%	–
Michael Hodgson (APN FM, Manager, Development Funds)	2006	262,677	180,524	29,914	473,115	12,139	1,000	–	486,254	37.1%	–
	2005	180,558	–	30,042	210,600	12,030	1,000	–	223,630	–	–
Michael Doble (APN FM, Director, Retail Funds)	2006	286,316	80,000	–	366,316	12,139	1,000	47,317	426,772	29.8%	11.1%
	2005	272,344	75,000	–	347,344	12,030	1,000	–	360,374	20.8%	–
Charles Raymond (APN FM, Director, Listed Funds)	2006	204,085	150,000	–	354,085	12,139	1,000	47,317	414,541	47.6%	11.4%
	2005	121,142	50,000	–	171,142	7,040	1,000	–	179,182	27.9%	–
John Freemantle (APN PG, Chief Financial Officer)	2006	84,482	18,750	–	103,232	3,982	1,000	–	108,214	17.3%	–
	2005	–	–	–	–	–	–	–	–	–	–
Total compensation: (consolidated)	2006	2,483,102	579,274	29,914	3,062,290	106,816	5,000	115,434	3,289,540		
	2005	2,650,571	175,000	133,722	2,959,293	105,493	4,000	62,400	3,131,186		
Total compensation:(company)	2006	1,544,618	18,750	–	1,563,368	58,260	1,000	20,800	1,643,428		
	2005	1,899,815	–	103,680	2,003,495	62,494	–	62,400	2,128,389		

Note 32. Related parties continued

Key management personnel's remuneration (Company and Consolidated) continued

Notes in relation to the table of directors' and executives' remuneration

A. The short-term incentive bonus is for performance during the 30 June 2006 financial year using the criteria set out on page 12. The amount was finally determined on 22 August 2006 after performance reviews were completed and approved by the Nomination and Remuneration Committee.

B. The fair value of the options is calculated at the date of grant using a binominal lattice model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period.

C. The insurance premiums paid in respect of the officers and directors of the Company and its controlled entities for the reporting period was $17,009. No amounts have been allocated to the individuals covered by the insurance policy as based on available information, the directors believe that no reasonable basis for such allocation exists.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
10 September 2004	$0.01 cents	$0.31	$0.31	25.0%	5.50%	6.57%
20 June 2005	$0.01 cents	$1.00	$1.00	25.0%	5.30%	6.57%
28 February 2006	$0.19 cents	$1.95	$1.95	32.3%	5.63%	3.15%

These share options expire on the termination of the individual key management personnel's employment.

Details of performance related remuneration

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 12.

Equity instruments

All options refer to options over ordinary shares of APN Property Group Limited, which are exercisable on a one-for-one basis under the APN Property Group Employee Share Purchase Plan.

Options over equity instruments granted as compensation

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value per option at grant date ($)	Exercise price per option ($)
Directors					
Clive Appleton	–	–	2,000,000	$0.01	$0.31
Executives					
Michael Doble	1,000,000	28 February 2006	250,000	$0.19	$1.95
Charles Raymond	1,000,000	28 February 2006	250,000	$0.19	$1.95

	Number of options granted during 2005	Grant date	Number of options vested during 2005	Fair value per option at grant date ($)	Exercise price per option ($)
Directors					
Clive Appleton	10,000,001	10 September 2004	6,000,000	$0.01	$0.31
Executives					
Michael Doble	150,000	20 June 2005	150,000	$0.01	$1.00
Michael Hodgson	75,000	20 June 2005	75,000	$0.01	$1.00
Warren Boothman	30,000	20 June 2005	30,000	$0.01	$1.00
Charles Raymond	30,000	20 June 2005	30,000	$0.01	$1.00

These share options expire on the termination of the individual key management personnel's employment.

Note 32. Related parties continued

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

All options in the Company may be offered to specific key management personnel through the Plan.

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

All options expire on termination of the individual's employment. In addition to a continuing employment service condition, the ability to exercise options is conditional on the consolidated entity achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion on page 12.

Further details, including grant dates and exercise dates regarding options granted to executives under the Plan are in Note 22 to the financial statements.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid $/share
Executives		
Michael Doble	6,621	$1.00
Charles Raymond	1,324	$1.00
Warren Boothman	1,324	$1.00
Michael Hodgson	3,311	$1.00

For financial year ended 30 June 2005, no shares were issued as a result of the exercise of options.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in 2005 or 2006.

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 end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the financial year relating to key management personnel and their related parties were as follows:

(i) During the financial year, Holus Nominees Pty Limited, a director related entity, provided cash deposits as security for bank guarantees of $1,500,000 obtained by APN No 6 Pty Limited, a controlled entity, to provide security for project funding guarantees. At 30 June 2006, the amount of the security was Nil (2005: $1,500,000). Interest on the cash deposits outstanding as at the end of the financial year is charged at a rate of Nil% (2005: 11.5%) reduced by the interest earned on cash deposits used as security for the bank guarantees. Interest paid and payable amounted to $Nil (2005: $10,702).

(ii) On 27 January 2006, the Company entered into a 24-month lease for premises at East Melbourne for accommodation by Christopher Aylward. The rental is $9,967 per calendar month for the first 12 months and $10,833 for the next 12 months. The Company receives reimbursement of the rentals and all outgoing from Christopher Aylward.

(iii) Drive Projects Pty Ltd, a construction company of which Christopher Aylward is the chairman and shareholder was engaged by the Company on normal commercial terms to act as project manager for the relocation and fit-out of the Company's head office at its new premises located at Level 30, 101 Collins Street, Melbourne 3000. The amount paid and payable to Drive Projects Pty Ltd is $162,663.

(iv) On 15 July 2005, a motor vehicle previously leased by APN Development and Delivery Pty Ltd, being a controlled entity of the Company, on behalf of Andrew Cruickshank was sold to Andrew Cruickshank at market value price.

(v) On the acquisition of a controlled entity in the year ended 30 June 2005, the Company acquired a pre-acquisition dividend payable of $5,399,096. Of this amount, $2,294,616 is payable to Holus Nominees Pty Ltd (a related entity of a director, Christopher Aylward), $2,294,616 payable to Melbourne Light Pty Ltd (a related entity of a former director, Adam Grollo) and $809,864 payable to Amsil Pty Ltd (a related entity of a director, Andrew Cruickshank).

Note 32. Related parties continued

As disclosed in the 30 June 2005 Annual Report, the dividend is payable on the receipt of sufficient net proceeds from the sale of a development property or 31 December 2006. The sale of the development property has occurred and resulted in sufficient net proceeds being used to pay the dividends on 19 December 2005.

(vi) 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.

Other than disclosed above, no other assets and liabilities have arisen from the above mentioned transactions.

From time to time, key management personnel of the Company or its controlled entities, or their related entities, may provide services to or use services from the consolidated entity. The provision of these services are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in APN Property Group Limited held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

	Number held at 1 July 2005	Granted as compensation	Exercised	Number held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors						
Clive Appleton	10,000,001	–	–	10,000,001	2,000,000	8,000,000
Executives						
Michael Doble	150,000	1,000,000	(6,621)	1,143,379	250,000	393,379
Charles Raymond	30,000	1,000,000	(1,324)	1,028,676	250,000	278,676
Warren Boothman	30,000	–	(1,324)	28,676	–	28,676
Michael Hodgson	75,000	–	(3,311)	71,689	–	71,689

	Number held at 1 July 2004	Granted as compensation	Exercised	Number held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Directors						
Clive Appleton	–	10,000,001	–	10,000,001	6,000,000	6,000,000
Executives						
Michael Doble	–	150,000	–	150,000	150,000	150,000
Charles Raymond	–	30,000	–	30,000	30,000	30,000
Warren Boothman	–	30,000	–	30,000	30,000	30,000
Michael Hodgson	–	75,000	–	75,000	75,000	75,000

No options held by key management personnel are vested but not exercisable at 30 June 2005 or 2006.

No options were held by related parties of the key management personnel.

Note 32. Related parties continued

Movements in shares

The movement during the financial year in the number of ordinary shares in APN Property Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Ordinary shares

	Number held at 1 July 2005	Received on exercise of options	Granted as compensation	Number held at 30 June 2006
Directors				
Christopher Aylward	49,123,688	–	–	49,123,688
Howard Brenchley	12,618,610	–	–	12,618,610
Andrew Cruickshank	1,536,862	–	–	1,536,862
Michael Butler	31,290	–	–	31,290
Executives				
Michael Doble	301,000	6,621	454	308,075
Charles Raymond	31,000	1,324	454	32,778
Warren Boothman	72,000	1,324	454	73,778
Michael Hodgson	76,000	3,311	454	79,765

	Number held at 1 July 2004	Acquired through a share issue during the year	Granted as compensation	Shares bought back from IPO proceeds	Number held at 30 June 2005
Directors					
Christopher Aylward	–	49,123,688	–	–	49,123,688
Howard Brenchley	–	13,618,610	–	(1,000,000)	12,618,610
Andrew Cruickshank	–	16,536,862	–	(15,000,000)	1,536,862
Michael Butler	–	31,290	–	–	31,290
Executives					
Michael Doble	–	300,000	1,000	–	301,000
Charles Raymond	–	30,000	1,000	–	31,000
Warren Boothman	–	71,000	1,000	–	72,000
Michael Hodgson	–	75,000	1,000	–	76,000

A Class Ordinary Preference Shares

At 30 June 2006 and during the financial year, there were no preference shares on issue.

	Number held at 1 July 2004	Acquired through a share issue during the year	Shares bought back from IPO proceeds	Number held at 30 June 2005
Directors				
Christopher Aylward	–	4,620,000	(4,620,000)	–

B Class Ordinary Preference Shares

At 30 June 2006 and during the financial year, there were no preference shares on issue.

	Number held at 1 July 2004	Acquired through a share issue during the year	Shares bought back from IPO proceeds	Number held at 30 June 2005
Directors				
Christopher Aylward	–	292,500	(292,500)	–
Howard Brenchley	–	97,500	(97,500)	–
Andrew Cruickshank	–	97,500	(97,500)	–

No shares were held by related parties of key management personnel.

Note 32. Related parties continued

Non-key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (refer to Note 29), jointly controlled entities (refer to Note 15), joint venture (refer to Note 16) and with its key management personnel (refer to key management personnel disclosures on page 61).

Other related party transactions

Subsidiaries

During the financial year the controlled entity, APN Funds Management Limited, received upfront fees of $2,731,981 (2005: $2,782,312) from APN Direct Property Fund, APN National Storage Fund, APN Property Plus Portfolio and APN Wholesale Direct Property Pool (2005: APN Regional Property Fund and APN National Storage Fund) for their assistance with due diligence, prospectus preparation and the co-ordination of property acquisitions.

APN Funds Management Limited also receives management fees for managing APN Property For Income Fund, APN Property For Income Fund No. 2, APN International Property for Income Fund, APN Retirement Properties Fund, APN National Storage Property Trust, APN Property Plus Portfolio Fund and APN Regional Property Fund and APN Direct Property Fund (2005: APN Property For Income Fund, APN Retirement Properties Fund, APN National Storage Property Trust, APN Property Plus Portfolio Fund and APN Regional Property Fund). Management fees received during the financial year were $18,677,424 (2005: $11,452,789). In addition APN Funds Management Limited also received contracting fees of $1,050,322 (2005: $Nil) from APN/UKA Management Limited.

During the financial year, APN/UKA Management Limited provided acquisition and loan arrangement services to APN/UKA European Retail Trust amounting to $5,546,348.

Management fees receivable amounted to $6,078,996 (2005: $5,171,565) and other receivables due to the manager from the funds it manages amounted to $541,579 (2005: $648,957) at financial year end.

APN Funds Management Limited received administration fees of $1,239,893 (2005: $685,138) for the provision of accounting, registry and customer service related services to the funds it manages.

APN Development and Delivery Pty Ltd received project management fees for providing project management services to APN Regional Property Fund and APN Development Fund No. 1. Project management fees received during the financial year were $50,984 and $482,468 (2005: $331,746 and $184,432) from APN Regional Property Fund and APN Development Fund No. 1, respectively.

During the financial year, the Company provided a loan of $1,034,000 (2005: Nil) to APN Funds Management Limited as Responsible Entity of the APN National Storage Property Trust. Interest on the loan outstanding as at the end of the financial year was charged at a rate of 7.7% (2005: Nil). Interest paid and payable amounted to $1,963 (2005: $Nil).

During the financial year, APN Funds Management Limited provided a loan of $180,000 (2005: Nil) to APN Wholesale Direct Property Pool. Interest on the loan outstanding as at the end of the financial year was charged at a rate of 7.0% (2005: Nil). Interest paid and payable amounted to $910 (2005: $Nil).

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

Investments

At 30 June 2006, the Company and its controlled entities, held investments in the following funds, which it manages:

	Units 2006 No.	Distributions received/receivable 2006 $
APN Property for Income Fund	86	20
APN Property for Income Fund No. 2	53	8
APN International Property for Income Fund	100	8
APN Property Plus Portfolio	100	8
APN National Storage Property Trust	100	9
APN/UKA European Retail Trust	660,000	39,402
APN Direct Property Fund	523,013	24,582
APN Development Fund No. 1	712,500	–

Note 32. Related parties continued

APN Property Group Limited has committed to invest $5 million into the APN Development Fund No 1 (APNDF1) on a pro rata basis with other investors in the Fund. During the current financial year, the Company invested $175,000 (2005: $537,000) into the APNDF1. The Fund Manager of APNDF1 will determine during the life of the fund the associated requirement to draw down or "Call" on the commitment to the APNDF1 to fund various development projects.

Loans with non key management personnel

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

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
Included in profit before income tax expense resulting from transactions with wholly-owned subsidiary:				
Dividends from wholly -owned subsidiary	–	–	10,000,000	320,804
Reimbursements	–	–	(180,000)	226,081
Impairment loss on inter entity loans	–	–	–	(1,438,579)
Receivables				
Aggregate amounts receivable from non key management personnel:				
Amount receivable other than trade debts				
Current				
Loan advances to:				
Other related parties	1,270,187	1,598,000	1,035,963	1,569,612
Wholly-owned controlled entities - tax related balance	–	–	8,712,298	9,658,342
Wholly owned controlled entities	–	–	7,606,243	10,522,094
Impairment loss on inter entity loans	–	–	(1,438,579)	(1,438,579)
	1,270,187	1,598,000	15,915,925	20,311,469
Payables				
Aggregate amounts payable to non key management personnel:				
Amount payable other than trade creditors				
Current				
Wholly-owned controlled entities - tax related balances	–	–	(4,400,722)	(12,413,527)
Wholly-owned controlled entities	–	–	–	(225,363)
	–	–	(4,400,722)	(12,638,890)

Note 33. Subsequent events

Since the balance date the directors have declared a dividend of 4 cents per fully paid ordinary share franked at the corporate tax rate of 30 percent, amounting to $4,682,541.

Other than the matter discussed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 30 June 2006, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Note 34. Explanation of transition to AIFRSs

Reconciliation of equity

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets													
Cash and cash equivalents		–	5,802	5,802	4,319	–	4,319	–	–	–	1,431	–	1,431
Trade and other receivables	b,g	–	3,530	3,530	46,534	(4,457)	42,077	–	–	–	21,220	(797)	20,423
Inventories		–	–	–	36,101	–	36,101	–	–	–	–	–	–
Income tax receivable		–	–	–	475	–	475	–	–	–	475	–	475
Other current assets		–	15	15	14,749	–	14,749	–	–	–	31,861	–	31,861
Total current assets		–	9,347	9,347	102,178	(4,457)	97,721	–	–	–	54,987	(797)	54,190
Trade and other receivables		–	–	–	–	–	–	–	–	–	–	–	–
Property, plant and equipment		–	233	233	562	–	562	–	–	–	–	–	–
Intangible assets	a,c,f	–	495	495	31,142	(17,639)	13,503	–	–	–	–	–	–
Deferred tax assets	d,g	–	65	65	(452)	649	197	–	–	–	(452)	3,510	3,058
Other		–	–	–	–	–	–	–	–	–	–	–	–
Total non-current assets		–	793	793	31,252	(16,990)	14,262	–	–	–	(452)	3,510	3,058
Total assets		–	10,140	10,140	133,430	(21,447)	111,983	–	–	–	54,534	2,714	57,248

Note 34. Explanation of transition to AIFRSs continued

Reconciliation of equity continued

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
			1 July 2004			30 June 2005			1 July 2004			30 June 2005	
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities													
Trade and other payables	g	–	2,794	2,794	11,460	–	11,460	–	–	–	6,815	6,522	13,337
Interest-bearing loans and borrowings		–	–	–	70,393	–	70,393	–	–	–	5,703	–	5,703
Income tax payable		–	382	382	–	–	–	–	–	–	–	–	–
Provisions		–	69	69	5,707	–	5,707	–	–	–	–	–	–
Total current liabilities		–	3,245	3,245	87,560	–	87,560	–	–	–	12,518	6,522	19,040
Interest-bearing loans and borrowings	a	–	5,107	5,107	–	–	–	–	–	–	–	–	–
Provisions		–	10	10	29	–	29	–	–	–	–	–	–
Total non-current liabilities		–	5,117	5,117	29	–	29	–	–	–	–	–	–
Total liabilities		–	8,362	8,362	87,589	–	87,589	–	–	–	12,518	6,522	19,040
Net assets	a	–	1,778	1,778	45,841	(21,447)	24,394	–	–	–	42,016	(3,808)	38,208
Equity													
Issued capital	a,b,d	–	1,232	1,232	43,727	(23,576)	20,151	–	–	–	43,727	(3,808)	39,919
Equity compensation reserves	e	–	–	–	–	62	62	–	–	–	–	62	62
Retained earnings	a,c,e	–	546	546	2,114	2,067	4,181	–	–	–	(1,711)	(62)	(1,773)
Total equity attributable to equity holders of the parent		–	1,778	1,778	45,841	(21,447)	24,394	–	–	–	42,016	(3,808)	38,208
Minority interest		–	–	–	–	–	–	–	–	–	–	–	–
Total equity	a	–	1,778	1,778	45,841	(21,447)	24,394	–	–	–	42,016	(3,808)	38,208

Note 34. Explanation of transition to AIFRSs continued

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

(a) In accordance with AASB 3 "Business Combinations" the acquisition by APN Property Group Limited of APN Funds Management Limited and APN Development and Delivery Pty Ltd has been accounted for as a reverse acquisition and the acquirer has been identified as APN Funds Management Limited for the purposes of AIFRS.

Impact at 1 July 2004

At 1 July 2004 the net assets and equity of the identified accounting parent (APN Funds Management Limited) was reinstated under AASB 3. This adjustment ensures a continuation of the accounting parent as prescribed under the reverse acquisition accounting rules within AASB 3.

Prior to the reinstatement of the net assets and equity, an AIFRS adjustment was made to APN Funds Management Limited to reclassify redeemable preference shares as financial liabilities, details as follows.

Redeemable A and B Class preference shares amounting to $5,107,500 were classified as financial liabilities for AIFRS purposes. 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.

Dividends on these preference shares classified as financial liabilities under AIFRS were treated as "interest expense" in the income statement and for the year ended 30 June 2005 amounted to $321,000.

By 30 June 2005 these 'preference share financial liabilities' had been fully repaid.

Impact at 30 June 2005

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

In addition, an elimination adjustment of $19,768,301 against equity under AIFRS and the recognition of the pre-acquisition retained profits of APN Funds Management Limited of $815,495 which was previously eliminated under AGAAP is made. The difference of $18,952,806 is an adjustment against goodwill.

(b) Limited recourse loans to employees to purchase shares are deemed to be equity settled share-based payments within the scope of AASB 2 Share-based Payments. Under such arrangements, entities will not recognise these transactions as loans, and should not recognise the related increase in share capital until the loan is settled. In substance, this arrangement is the same as an option to purchase shares in the Company.

Impact at 1 July 2004

There was nil impact at 1 July 2004 as the company did not participate in such transactions.

Impact at 30 June 2005

During the financial year ended 30 June 2005, loans amounting to $4,456,887 were provided to various employees (including Directors and Executives) under these arrangements.

The following adjustments are reflected in the AIFRS balance sheet as at 30 June 2005:

- elimination of the loan receivable from the APN Property Group Limited executives and employee share based payment plans of $4,456,887; and
- reduction in share capital of $4,456,887 to reflect the shares held in APN Property Group Limited by the trusts.

(c) Under AASB 3 "Business Combinations", goodwill is no longer amortised, rather it is to be assessed annually for potential impairment.

Impact at 1 July 2004

There was nil impact at 1 July 2004.

Impact at 30 June 2005

Goodwill amortisation for the financial year ended 30 June 2005 amounted to $1,341,000 and has been written back under AASB 3. When combined with the reverse acquisition accounting adjustment of $18,980,000 results in the total AIFRS adjustment of $17,639,000 at 30 June 2005.

Note 34. Explanation of transition to AIFRSs continued

(d) Under AASB 112 'Income Taxes' the balance sheet approach to tax effect accounting must be adopted.

Impact at 1 July 2004
There was nil impact at 1 July 2004.

Impact at 30 June 2005
APN Property Group Limited listed on the ASX on 21 June 2005 and incurred capital raising cost amounting to $2,162,000. Accordingly, under AASB 112, a deferred tax asset amounting to $649,000 was recorded against equity.

(e) In accordance with AASB 2 "Share based payment", the economic entity will be required to recognise the fair value of options granted to employees as an expense on a time basis over the period from the grant date to the vesting date with a corresponding adjustment to equity.

Impact at 1 July 2004
There was nil impact at 1 July 2004.

Impact at 30 June 2005
As at 30 June 2005, the fair value expense attributable to these share based payments was $62,400. A corresponding credit to the equity compensation reserve was made.

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

(g) The consolidated entity had applied UIG 52 for tax consolidation purposes under previous GAAP, resulting in the Company as the head entity of the tax-consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax-consolidated group.

Under AIFRS, the consolidated entity has adopted UIG 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and deferred tax assets from tax losses. Under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences, other than for tax losses.

Under previous GAAP, the tax funding arrangements assets and liabilities were recognised as inter-entity tax-related balances whereas tax funding arrangements expenses and revenues were recognised as a component of income tax expense or revenue.

Upon adoption of UIG 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries. The entities in the Australian tax-consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses/credits so that no net contributions or distributions to equity participants are expected to arise in the future.

Impact at 1 July 2004
There was nil impact at 1 July 2004.

Impact at 30 June 2005
The effect of the above in the Company at 30 June 2005 is to:

- increase *Inter-company receivable* by $3,661,696;
- decrease *Deferred tax liability* by $4,229,332;
- increase *Inter-company payable* by $6,521,744
- decrease *Deferred tax asset* by $1,368,032.

(i) The effect of the above adjustments on retained earnings is as follows:

	Consolidated		The Company	
	30 June 2005 $'000	1 July 2004 $'000	30 June 2005 $'000	1 July 2004 $'000
Goodwill	(1,341)	–	–	–
Intangible assets	27	–	–	–
Reverse acquisition accounting	(815)	–	–	–
Share based payments	62	–	62	–
Total adjustment to equity	(2,067)	–	62	–
Attributable to:				
Equity holders of the parent	(2,067)	–	62	–

Refer to reconciliation of profit for 2005 on page 76.

Explanation of material adjustments to the cash flow statement for 2005

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

Note 34. Explanation of transition to AIFRSs continued

Reconciliation of profit for 2005

		Consolidated			The Company		
	Note	Previous GAAP $'000	Effect of Transition to AIFRSs $'000	AIFRSs $'000	Previous GAAP $'000	Effect of Transition to AIFRSs $'000	AIFRSs $'000
Revenue		62,753	–	62,753	547	–	547
Cost of sales		(48,456)	–	(48,456)	–	–	–
Gross profit		14,297	–	14,297	547	–	547
Other operating income		307	–	307	–	–	–
Employee expenses	e	(5,779)	(62)	(5,841)	(55)	(62)	(117)
Provision for intercompany loans		–	–	–	(1,439)	–	(1,439)
Other expenses		(3,285)	–	(3,285)	(165)	–	(165)
Goodwill amortisation	c	(1,341)	1,341	–	–	–	–
Write off intangible under AIFRS	f	–	(27)	(27)	–	–	–
Reinstate pre-acquisition profit before tax of APN Funds Management Limited to account for reverse acquisition under AIFRS	a	–	2,002	2,002	–	–	–
Results from operating activities		4,199	3,254	7,453	(1,112)	(62)	(1,174)
Financial income		579	–	579	69	–	69
Financial expenses		(535)	–	(535)	(464)	–	(464)
Notional interest expense on distributions paid to preference share holders	a	–	(321)	(321)	–	(321)	(321)
Net financing costs		44	(321)	(277)	(395)	(321)	(716)
Profit before tax		4,243	2,933	7,176	(1,507)	(383)	(1,890)
Income tax (expense)/benefits	a	(1,808)	(601)	(2,409)	117	–	117
Profit for the financial year		2,435	2,332	4,767	(1,390)	(383)	(1,773)
Attributable to:							
Minority interest		–	–	–	–	–	–
Profit attributable to members of the parent		2,435	2,332	4,767	(1,390)	(383)	(1,773)
Basic earnings per share from continuing operations		2.62 cents		5.53 cents			
Diluted earnings per share from continuing operations		2.62 cents		5.33 cents			

Note 35. Changes in accounting policy

In the current financial year the Group adopted AASB 132: *Financial Instruments: Disclosure & Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 132 and 139 has not impacted the performance, financial position and/or cash flows of the Group and the Company at 1 July 2005.

Directors' declaration

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

(a) the financial statements and notes, set out on pages 27 to 76, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

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

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2006.

Dated at Melbourne this 7th day of September 2006.

Signed in accordance with a resolution of the directors:

Christopher J. Aylward
Director

KPMG

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

To: the directors of APN Property Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Don Pasquariello

Don Pasquariello
Partner
Melbourne

9th September 2006

ASX Additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 5 October 2006)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Ordinary Shareholder	Number of shares	Percentage of issued capital
Holus Nominees Pty Limited	45,098,688	34.89%
Holvia Investments Pty Limited	11,583,315	8.96%
Melbourne Light Pty Limited	10,000,002	7.74%
APN Property Group Nominees Pty Limited	9,180,001	7.10%

Voting rights

Ordinary shares

Refer to note 24 in the financial statements

Options

Refer to note 22 in the financial statements

Distribution of equity security holders

	Number of Equity Security Holders		
Category	Number of holders	Ordinary shares	Percentage of shares held
1 – 1,000	77	57,058	0.04%
1,001 – 5,000	531	1,933,625	1.50%
5,001 – 10,000	407	3,760,247	2.91%
10,000 – 100,000	615	16,865,488	13.05%
100,000 and over	40	106,651,815	82.50%
	1,670	129,268,233	100.00%

The number of shareholders holding less than a marketable parcel of 167 ordinary shares is 2 and they hold 125 ordinary shares.

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home exchange is Melbourne.

Other information

APN Property Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back

ASX Additional information

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Holus Nominees Pty Limited	45,098,688	34.89%
Holvia Investments Pty Limited	11,583,315	8.96%
Melbourne Light Pty Limited	10,000,002	7.74%
APN Property Group Nominees Pty Limited	9,180,001	7.10%
ANZ Nominees Limited	4,415,050	3.42%
JP Morgan Nominees Australia Limited	3,888,128	3.01%
National Nominees Limited	3,680,347	2.85%
APN Funds Management Limited ATF, APN Property Group Employee Share Plan Account	3,085,000	2.39%
IAG Nominees Pty Limited	1,892,595	1.46%
Cogent Nominees Pty Limited	1,784,043	1.38%
RBC Dexia Investor Services Australia Nominees Pty Limited (GSJBW Account)	1,772,526	1.37%
RBC Dexia Investor Services Australia Nominees Pty Limited (BKCUST Account)	1,658,234	1.28%
Invia Custodian Pty Limited	1,536,862	1.19%
UBS Wealth Management Australia Nominees Pty Limited	1,238,302	0.96%
Perpetual Trustees Consolidated Limited	585,500	0.45%
Cogent Nominees Pty Limited (SMP Account)	552,904	0.43%
Citicorp Nominees Pty Limited	545,000	0.42%
UBS Nominees Pty Limited	500,000	0.39%
Aust Executor Trustees NSW Limited	347,000	0.27%
Michael Doble and Patricia Doble ATF Doble Family Investment Trust	300,000	0.23%
	103,643,497	80.19%

Corporate Directory

Registered Office

APN Property Group Limited
Level 30
101 Collins Street
Melbourne VIC 3000
Telephone: (03) 8656 1000
www.apnpg.com.au

Directors

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

Company Secretary

Peter Nicholson

Auditor

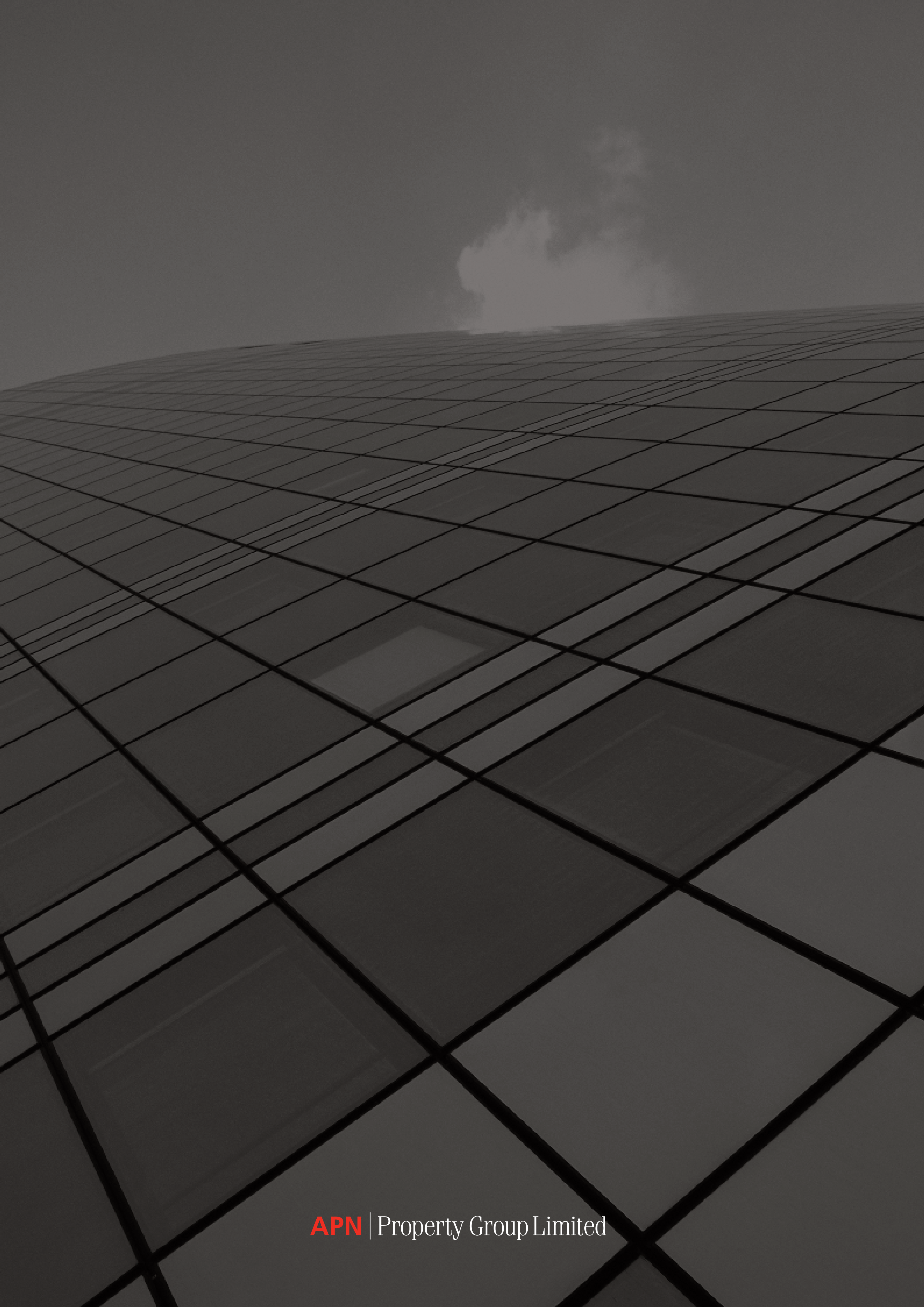
KPMG
161 Collins Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 4, 333 Collins Street
Melbourne Vic 3000

Postal Address
Locked Bag A14
Sydney South NSW 1235
Facsimile: (02) 9287 0309

DESIGN: COLLIER & ASSOCIATES STRATEGIC DESIGN FOR INVESTORS #11578



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