2007 ANNUAL REPORT

APN | Property Group Limited

Our brand of property investment

Contents

APN Property Group Limited
and its Controlled Entities

ABN 30 109 846 068

2007 Financial year highlights

- Net profit after tax of $17.41 million, 45% above the 2006 financial year
- Earnings per share 31% above the 2006 financial year
- Full year dividend 10 cents per share, 25% above the 2006 financial year
- Share price increases to $3.45 as at 30 June, 2007 from $2.38 as at 30 June 2006
- Funds under management up by 43% to $4.8 billion
- Launch of new funds

Chairman's Statement

Chris Aylward
Chairman

Dear Shareholder

Welcome to the annual report for the APN Property Group Limited ("the Company or APN"), for the year ended June 2007.

During the financial year ended June 2007 we have delivered a significant growth in profit, substantial returns to shareholders and made further progress in each of our target markets.

Key highlights of the year include the following:

Net Profit and Revenues

The Company achieved a Net Profit after Tax of $17.41 million, which is 45% ahead of our 2006 financial year results, above market expectations and at the higher end of the earnings guidance provided in June 2007. The primary factor contributing to the profit significantly exceeding last year was further substantial growth in funds under management, which increased by 43% for the year to over $4.8 billion.

I am pleased to report that the majority of company revenue (73%) came from annuity style earnings such as the annual management fees we charge for managing property funds. This should underpin the long term sustainability of revenue particularly as growth in funds under management continues. The balance of revenue came predominantly from upfront fees generated through the expansion and or creation of direct property funds.

Importantly, as a result of the expansion of the business into new markets we have also been able to diversify the revenue base, reducing reliance on any one market in which we operate.

Dividends

The Company has paid fully franked dividends totalling 10 cents per share for the 2007 financial year, which represents a 25% increase on the previous year. This reflects a payout ratio of approximately 70%.

Balance Sheet

The balance sheet was strengthened during the year with the placement undertaken in September 2006. Net assets as at June 2007 were $67 million which is providing us with greater opportunities and flexibility to expand the business.

Growth in Funds Under Management

As at June 2007 the company was managing 13 property funds (previously 11) and funds under management increased from $3.4 billion to $4.8 billion during the financial year. Further information regarding this is detailed in the report from the Managing Director.

2008 – The Year Ahead

We recently announced the acquisition of interests in our joint venture partner in Europe (UKA), for $12.4 million. This is anticipated to increase earnings before income tax by approximately $3 million over a full 12 month period.

We look forward in the 2008 financial year to a further strengthening and expansion of our business. We are confident that profit will continue to grow as we launch new funds and expand existing funds.

Finally, I would like to take the opportunity to sincerely thank all our staff who have made a significant contribution to the excellent results achieved by the company for the 2007 financial year. With the significant growth in the business over recent years we have expanded and strengthened our team of investment professionals who are very well regarded in the market place and are integral to the future success of the company.

Yours sincerely,

Chris Aylward
Executive Chairman

Managing Director's Statement

Clive Appleton
Managing Director

Dear Shareholder

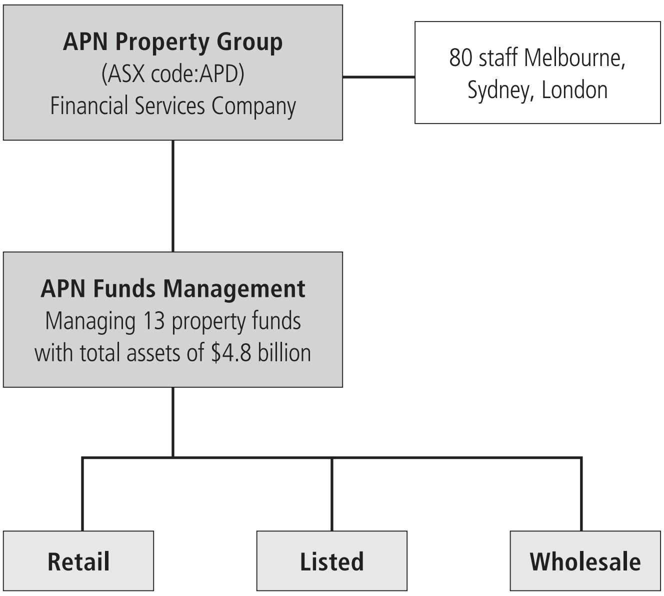
As indicated in the Chairman's statement, we have achieved significant growth in funds under management during the 2007 financial year.

Business model

The company business model is to be a specialist international property funds management company.

As at 30 June 2007, the company was managing 13 property funds representing total funds under management of over $4.8 billion. These funds are primarily designed for Australian investors seeking property investment opportunities in the Retail, Listed Property Trust and Wholesale markets.

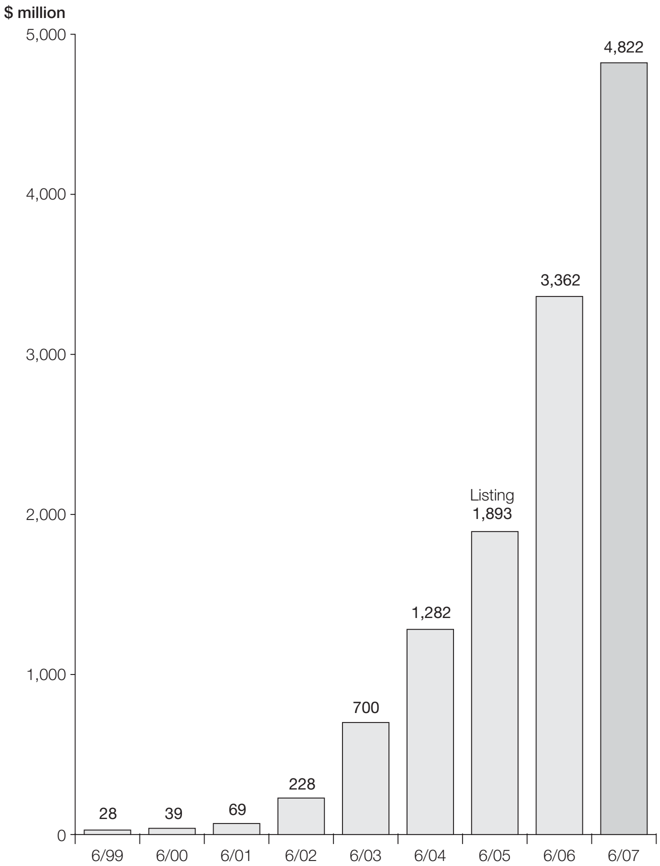
The business model is briefly illustrated below.



Growth in Funds Under Management

The significant growth in funds under management for the 2007 financial year represents a continuation of strong growth for the business over a sustained period. While this growth has accelerated since the company listed on the ASX in June 2005, it is important to note that the funds management business has been in operation for nearly 10 years and has shown growth since that period, as illustrated below.

History of Growth in Funds Under Management



Managing Director's Statement

Drivers of growth in APN Funds Under Management during the 2007 financial year

Importantly, during the last financial year we have seen a continuation of strong results across each of the markets in which the company operates. Major contributions to growth in funds under management came from the following;

- Retail market.
  - APN continuous issuer funds, such as the property securities funds, increased in value by $634 million or 32% to total $2.6 billion in funds under management.
  - APN fixed term funds such as the new European funds and APN National Storage Property Trust, increased in value by $379 million or 88% to $0.8 billion.
- Listed Property Trust market.
  - APN expanded its APN/UKA European Retail Trust (ASX code AEZ) which increased in value by $423 million or 49% to $1.3 billion.

The Australian Property Funds Management Sector

The property funds management sector has grown at a considerable rate over recent years increasing from $210 billion in 2004, to $356 billion in 2007. (Source: Property Investment Research).

This substantial growth has primarily been fuelled by the weight of investable funds being generated from factors such as the compulsory superannuation levy and retirement savings seeking exposure to property. This, coupled with strong investment returns in the Australian property market over a sustained period has generated significant growth.

Looking forward, the introduction of increased superannuation incentives over the last twelve months, should support continued growth in the property funds management sector.

APN's positioning within the Australian Property Funds Management Sector

APN managed 13 property funds as at June 2007, in the Retail, Listed Property Trust and Wholesale markets.

The table below illustrates that APN has a relatively small market share in each property funds management sector, therefore providing the potential for further growth in funds under management if APN can increase its market share.

Australian Property Funds sector composition and APN

	Industry size*	APN size	% of APN Funds under management
Retail – Continuous issuer funds	$52b	$2.6b	54%
– Fixed term funds	$25b	$0.8b	17%
Listed	$176b	$1.3b	27%
Wholesale	$59b	$0.1b	2%
Total	$312b	$4.8b	100%

** Source Property Investment Research.*

The property funds management market segments and APN's positioning within each are described further below.

Retail Market – Continuous Issuer Funds:

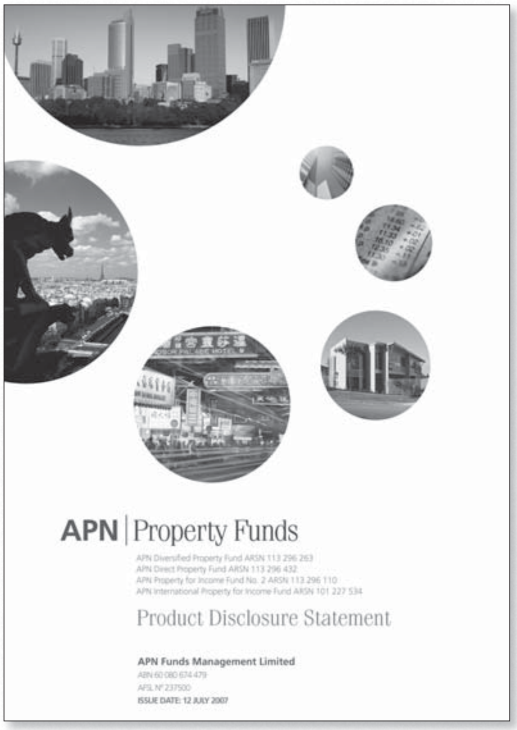
This represents the first market APN entered when the funds management business was created in 1998.

The market primarily comprises retail investors and small super funds who invest directly into property funds or through financial advisers who typically directly invest through Master Trusts or Wrap accounts.

The funds APN manage in this market are identified below:

Fund	Primary Investment	Funds Under Management 2007	2006
APN Diversified Property Fund	Investing in APN's Specialist Property Funds	$48m*	$26m*
APN Property for Income Fund	Australian Listed Property Securities	$1,829m	$1,657m
APN Property for Income Fund #2	Australian Listed Property Securities	$622m	$247m
APN International Property for Income Fund	International Listed Property Securities	$76m	$40m
APN Direct Property Fund	Australian Diversified Direct Property Portfolio	$96m	$45m
Total		$2,623m	$1,989m

** excluded from funds under management calculation as included in underlying specialist funds*



Retail Continuous Issuer Funds – APN Property Funds PDS

This year we have seen further significant growth in our continuous issuer funds which have increased by $0.6 billion or 32% to $2.6 billion. Of this amount approximately $220 million has resulted from new investment with the balance representing the growth in the value of the underlying investments.

The primary contributor to this growth has been the APN Property for Income Fund 2. The growth in this Fund has been driven by continued strong investment performance and by offering a clear value proposition to advisers and investors which has been well accepted.

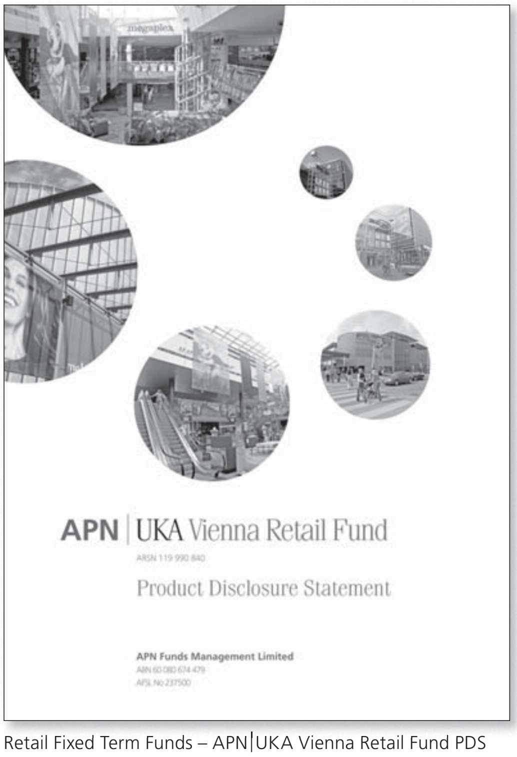
Retail Market – Fixed Term Funds:

The second component of the retail business relates to the fixed term funds, being funds which are either closed to new investment or only accept new funds when new investment opportunities present. These funds generally operate for a fixed term.

The funds APN manage in this market are identified below:

Fund	Primary Investment	Funds Under Management 2007	2006
APN National Storage Property Trust	Australian self-storage properties	$361m	$235m
APN Regional Property Fund*	Australian regional properties	$85m	$78m
APN Property Plus Portfolio	Australian fuel outlets	$96m	$84m
APN Retirement Properties Fund	Australian retirement villages	$37m	$34m
APN/UKA Vienna Retail Fund	Austrian shopping centre	$144m	nil
APN/UKA Poland Retail Fund	Polish shopping centre	$87m	nil
Total		$810m	$431m

** This fund is listed on the Bendigo Stock Exchange and can be invested in through that exchange*



Retail Fixed Term Funds – APN|UKA Vienna Retail Fund PDS

Managing Director's Statement

During the year we have also seen the growth of the fixed term funds business with an 88% increase in funds under management from $431 million to $810 million. This has been achieved by creating two new funds being the APN/UKA Vienna Retail Fund and APN/UKA Poland Retail Fund and by growing the existing APN National Storage Property Trust.

We believe the market for the fixed term property funds with European assets will become a growing component of the APN business. This is based on an increasing demand for this type of fund.

Listed Property Trust market:

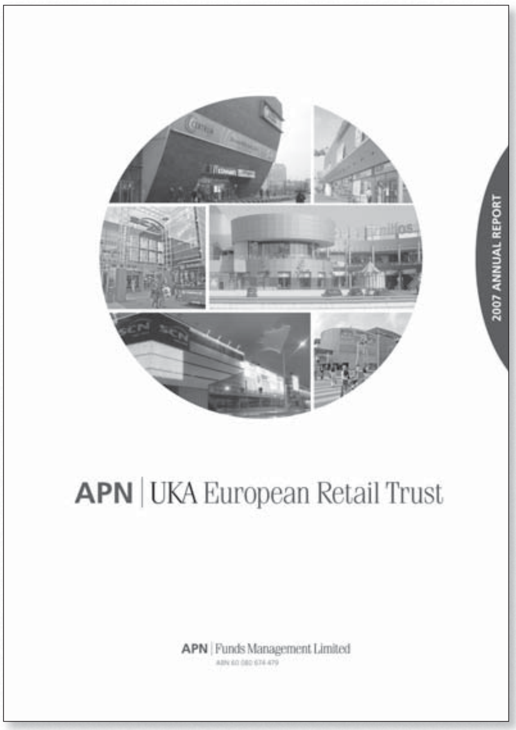
This represents one of the new markets APN has entered since listing and has achieved significant success in a short period of time.

The market is the largest component of the property funds management sector and covers a very wide range of investor groups including property securities and equity funds, retail investors and super funds.

APN manage one fund in this market as follows:

		Funds Under Management	
Fund	Primary Investment	2007	2006
APN/UKA European Retail Property Trust (AEZ)	Investing in European retail property	$1,294m	$871m

APN has been able to grow AEZ by a further $423 million or 49% to $1.3 billion during the last financial year. This has been achieved by the acquisition of a range of new properties funded through a combination new equity capital and debt. The Company has recently converted AEZ into a stapled security which will enable it to undertake a more diverse range of property activities than it previously could. That should result in higher distribution growth over time and correspondingly reduce the cost of capital or funding which will provide for greater opportunities to grow AEZ.



Listed Funds – AEZ Annual Report 2007

AEZ now also has the benefit of a substantial pan-European property and asset management platform created by APN to manage the shopping centre portfolio in which AEZ has invested.

Wholesale market:

This also represents a relatively new market for APN having launched its first fund in April 2005.

The market covers a very wide range of wholesale investors including corporate superannuation and industry funds.

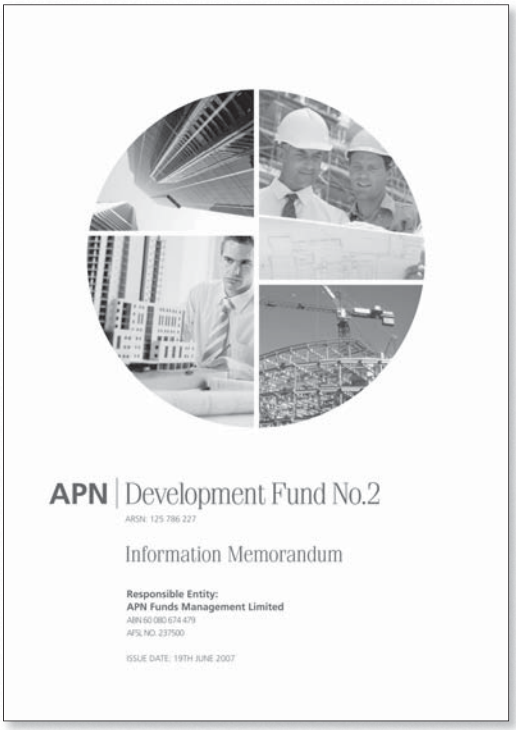
As at June 2007, APN managed one fund in this market as follows

		Funds Under Management*	
Fund	Primary Investment	2007	2006
APN Development Fund No 1	Investing in Australian property developments	$95m	$71m

** measured by called capital*

Since the end of the financial year, the Company has been successful in launching a second development fund, APN Development Fund No 2, which has received $80 million in equity commitments.

APN believes this market provides significant opportunities to increase its market share by delivering strong returns on its two development funds and by identifying opportunities to provide new differentiated funds for this market. Our confidence in this market is also reinforced by the significant growth in the wholesale sector driven in particular by the strong growth in the superannuation industry.



Wholesale Funds – APN Development Fund No.2

Yours sincerely,

Clive Appleton
Managing Director

Directors’ report

for the financial year ended 30 June 2007

The directors of APN Property Group Limited (the Company) are pleased to present their report of the Company and the consolidated group for the financial year ended 30 June 2007.

The names and particulars of the directors of the Company and the consolidated group during or since the end of the financial year are:

Name and particulars

Christopher Aylward – Chairman, Executive Director

A Director since 1996.

Chris has been involved in the Australian property and construction industry for over 30 years. Prior to jointly establishing APN in 1996, Chris was the managing director of Grocon Pty Limited and had responsibility for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over $2 billion, including Governor Phillip and Governor Macquarie Towers in Sydney and 120 Collins Street and the World Congress Centre in Melbourne.

In his role as executive chair, Chris will continue to be actively involved in the business with a particular focus on opportunities for APN in Europe.

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

A Director since 2004.

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

In his role as managing director for APN Property Group Limited, Clive has responsibility for the overall strategy, as well as taking a hands on role with product development for APN Fund Management Limited (“APN FM”) and sourcing, evaluating, negotiating and managing individual property opportunities for APN FM.

Howard Brenchley *B.Ec* – Executive Director

A Director since 1998.

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

Howard has been primarily responsible for the development of APN FM’s funds management business. Howard continues to oversee all product management and product development for APN FM.

Michael Butler *BSc, MBA, FAICD* – Independent Non Executive Director

A Director since 2005.

Michael has been a director of APN Property Group since 2005.

Michael has over 20 years experience in the financial services sector, having enjoyed a long career at Bankers Trust Australia, following positions held 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 (since 2003), Metcash Limited (since 2007) and Members Equity Bank Pty Limited. During the past three years, he has also served as a Director of Verticon Group Limited (2004 – 2006), Hamilton Island Limited (2004), Ticor Limited (2004 – 2005) and Baxter Group Limited (2004 – 2006).

Michael is also Chairman of the APN Property Group Audit & Risk Management Committee.

	Name and particulars
	**Andrew Cruickshank** *B.A., GradDip (Prop), GradDip (Acc), MUP, RBP, ASA, MPIA, MREIV, MAPI, SA Fin* – Non-Executive Director A Director since 1996. Andrew has 27 years experience in the Australian, British and Hong Kong property markets. Prior to jointly establishing APN in 1996, Andrew was general manager of Grocon Pty Limited. Andrew's Australian property development, management and finance experience includes extensive involvement in the funding and development management of the Grocon projects at 120 and 161 Collins Street and the SECV headquarters in Melbourne and the Penrith Taxation Office in Sydney.
	**John Harvey** *LLB B.Juris GradDip (Acc), FCA* – Independent Non-Executive Director A Director since 23 April 2007. John's early career was in tax law and accounting, including senior management roles with Price Waterhouse from 1989 to 1996 and Country Senior Partner of PricewaterhouseCoopers from 1996 to 2000. From 2001 to 2004 he was Chief Executive of the Mt Eliza Business School. John is currently an Independent Director of David Jones Limited (since 2001), Australian Infrastructure Fund Limited (since 2004), Templeton Global Growth Fund Limited (since 2004) and Freehills Lawyers.

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.

Principal activities

The principal activities of the Company and the consolidated group during the course of the financial year was the provision of funds management services.

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

Review of operations

The APN Property Group has recorded a consolidated net profit after tax of $17.4 million for the year ended 30 June 2007, a 45% increase on the $12.0 million, last year.

During the period, funds under management increased by 1.5 billion to 4.8 billion. Growth has come from a number of sources and reflects the increasing diversification of APN's business. These include:

- New funds raised through the "open ended, retail investor" funds
- Growth of the European listed trust and two new European property syndicates resulting from further property acquisitions during the period
- The commencement of two major new projects for the Development Fund
- Organic growth in the value of investments held by each Fund.

APN has successfully replaced its earnings from direct development activities with sustainable earnings from funds management. In the current period management fees of $28.1 million, net of rebates and commissions, were recorded. This represents an increase of 64.7% over the previous year.

In addition, acquisition fees and debt arrangement fees totalling $11.5 million were recorded in this period. Though individually these fees are non-recurring, APN has been able to regularly replace them as its business expands.

Overhead expenses have also grown in response to the increasing requirements of the business. This includes APN's new London office which is now well established and will continue to expand as the European activities grow. Tax expense has grown in proportion to earnings growth. Investors will receive the benefit of taxes paid through the franking credits applicable to future dividends.

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated group during the financial year.

Subsequent events

In July 2007, the company committed to invest $5 million into the APN Development Fund No 2 (APNDF2), an emerging area of APN's business in the creation of property development funds for wholesale investors. APN will earn income from the management of the fund and the development projects and from its investment in the fund which ensures it aligns its interest with its co-investors.

In August 2007, APN successfully completed the acquisition of UK Australasia Limited, its joint venture partner in the management of the listed APN/UKA European Retail Trust. APN has paid $12.4 million for UKA's 50% share of the base management fees earned. APN and UKA will continue to share property acquisition and debt arrangement fees and all fees earned for the management of all unlisted European retail funds.

As noted below, directors have declared a final dividend to the year ended 30 June 2007 of 5.5 cents per share to be paid on 12 October 2007.

There has been no other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future developments

The Company expects to continue the growth of its funds management business. This may come from the growth of existing funds, the establishment of new funds or the acquisition of other funds management businesses.

Environmental regulations

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

Dividends

The directors have declared a final dividend of 5.5 cents per share for the year ended 30 June 2007. The dividend will be fully franked and paid on 12 October 2007 to all investors registered on 25 September 2007.

This brings the total dividends paid out of earnings for the year ended 30 June 2007 to 10.0 cents per share as compared to 8.0 cents paid for the previous financial year.

Share options

Share options granted to directors and executives

In the period since 30 June 2006, share options were granted to directors and staff. Details of these are set out in Note 32 to the financial statements. The options granted included the following to directors and executives:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Warren Boothman	150,000	APN Property Group Limited	150,000

Unissued shares under option

The details of unissued ordinary shares of the Company under option are set out in Note 32 to the financial statements.

Shares issued on exercise of options

In the period since 30 June 2006, the Company issued the following shares pursuant to the exercise of share options:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
APN Property Group Limited	1,043,480	Ordinary shares	$289,253	–

Indemnification of officers and auditors

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.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Christopher Aylward	13	13	3	3	5	5
Clive Appleton	13	13	3	3	5	5
Howard Brenchley	13	13	3	3	N/A	N/A
Michael Butler	13	12	N/A	N/A	5	5
Andrew Cruickshank	13	12	N/A	N/A	5	4
John Harvey	2	2	N/A	N/A	N/A	N/A

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the company or a related body corporate as at the date of this report.

	Fully paid ordinary shares	Shares issued under limited or non recourse loans, disclosed as share options
	Number	Number
Directors		
Christopher Aylward	45,098,688	–
Clive Appleton	–	9,000,001
Howard Brenchley	11,583,315	–
Michael Butler	31,290	–
Andrew Cruickshank	1,536,862	–
John Harvey	–	–

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.

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 three non-executive directors, two of whom are also independent directors as defined by the ASX Best Practice Guidelines. The names and biographical details of the directors are set out on pages 8 to 9 of the directors' report.

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.

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 APN PG on appropriate nomination and remuneration policies which are designed to meet the needs of APN PG and to enhance corporate and individual performance;
- develop Human Resources (HR) policies, with regard to hiring, remuneration, retention and development policies;
- develop remuneration policies which involve a balance between fixed and incentive pay and reflect short and long term performance objectives appropriate to APN PG's circumstances and goals;
- ensure the Board, management and the Nomination and Remuneration Committee are provided with sufficient information to ensure informed decision-making on the issue of HR, remuneration and nomination of the Board and senior management;

Corporate governance statement continued

- fairly and regularly review the performance of the Board and key executives against both measureable and qualitative indicators; and
- advise the Board on the appropriate disclosure to be made in relation to executive remuneration, termination payments and retirement benefits.

The current members of the Nomination and Remuneration Committee are John Harvey (Chairman), Christopher Aylward and Michael Butler.

The names and biographical details of the directors are set out on pages 8 to 9 of the directors' report. The numbers of Nomination and Remuneration Committee meetings and their attendance are set out on page 10 of the directors' report. The amount of remuneration for non-executive/executive directors and for each of the five highest paid (non-director) executives during the year are set out in Remuneration Report on pages 13 to 18 of the directors' report.

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;
- inform investors of material changes to APN PG's financial and risk profile;
- maintain high standards of management and financial reporting;
- ensure effective audit functions and communication between the Board and external auditors, and
- enhance the environment for identifying and capitalising on opportunities to create value.

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;
- 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);
- make recommendations to the Board on the establishment and implementation of APN PG's risk management and financial reporting system, and to review at least annually the effectiveness of APN PG's implementation of that system;
- make recommendations to the Board in relation to a risk profile which should be a description of the material risks faced by APN PG and should include material risks of both a financial and non-financial nature; and
- assists management to establish and implement a system for identifying, assessing, monitoring and managing material risk through the organisation including APN PG's internal compliance and control systems.

The current members of the Audit and Risk Management Committee are Michael Butler (Chairman), Andrew Cruickshank and John Harvey.

The names and biographical details of the directors are set out on pages 8 to 9 of the directors' report. The numbers of Audit and Risk Management Committee meetings and their attendance are set out on page 10 of the directors' report.

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

Review of Board Performance

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

The evaluation includes 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 is undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election. Michael Butler and Howard Brenchley were re-elected as directors on the 23 November 2006 at the Annual General Meeting for financial year ended 30 June 2006.

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.

Corporate governance statement continued

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; and
Recommendation 2.2 – the chairperson should be an independent director.

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 and 2.2 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. However, the Board has as an objective the transition to an independent Board as recommended by the ASX Guidelines. Accordingly, the Board has initiated a search for an additional independent director.

The Board has also considered the best interests of shareholders and determined that the current composition of the Board will serve 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.

Remuneration report

Director and executive details

The names of directors who held office during all of the financial year and until the date of this report, except where otherwise noted, are:-

- Christopher Aylward
- Clive Appleton
- Howard Brenchley
- Michael Butler
- Andrew Cruickshank
- John Harvey (appointed 23 April 2007)

The highest remunerated company executives who were not also directors for the financial year were:

- Warren Boothman (General Manager, Corporate)
- John Freemantle (Chief Financial Officer)
- Peter Nicholson (Company Secretary)

The five highest remunerated group executives who were not also directors for the financial year were:

- Warren Boothman (General Manager, Corporate)
- Michael Doble (Director, Retail Funds)
- John Freemantle (Chief Financial Officer)
- Michael Hodgson (Manager, Development Funds)
- Charles Raymond (Director, Listed Funds)

Remuneration policy for directors and executives

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 group.

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

Compensation levels for directors and senior executives of the Company, and the consolidated group are competitively set to attract and retain appropriately qualified and experienced

Remuneration report continued

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 group's performance including:
  - the consolidated group'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 for non-executive directors fees are reviewed annually by the Board and subject to an aggregate maximum set by shareholders. Non-executive directors are not entitled to any retirement benefits.

Compensation packages for executive directors and other executives may include a mix of fixed and variable compensation and short and long term performance based incentives. In addition to salaries, compensation may also include non-cash benefits.

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, based on advice from independent remuneration consultants to ensure they 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.

Compensation of executive directors and executives

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 group. 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 executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided by the offer of shares in the Company via the APN Property Group Employee Share Purchase Plan (the Plan) (refer to Note 32).

Each year the Nomination and Remuneration committee sets the KPI's (key performance indicators) for executive directors and senior executives. The KPI link the performance of these executives to the financial outcome of the consolidated group.

At the end of the financial year the Nomination and Remuneration Committee assess the actual performance of the consolidated group, the relevant business areas and individual against the KPI's set at the beginning of the financial year.

Short-term incentive bonus

The Nomination and Remuneration Committee recommends the cash incentive to be paid to the individuals for approval by the board, based upon the performance of the individual against the predetermined KPI's. Bonuses are paid after completion of the financial year to which they relate at the time of the payment of the final dividend to shareholders.

Fully vested bonuses to the directors and senior executives of $236,000 (2006: $621,879) were provided for in the accounts for the financial year ended 30 June 2007.

Long-term incentive

APN Property Group Employee Share Purchase Plan

Shares in the company may be offered to executive 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 an interest-free 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.

Remuneration report continued

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 accordance with the Accounting Standards, this arrangement is required to be treated as an option to purchase shares in the Company.

Shares issued under the Plan may include conditions for vesting. The entitlement to shares under the Plan and the vesting conditions are linked to the achievement of KPI objectives. Once vested and subject to the repayment of any loan owing, the shares become unrestricted and may be dealt with as desired.

At 30 June 2007, the fair value of the share options issued under this arrangement included in equity compensation reserve was $236,545 (2006: $94,634).

Clive Appleton Share Trust

Managing Director, Clive Appleton has an entitlement to shares in the company as follows:-

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 9,000,001 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 accordance with the Accounting Standards, this arrangement is required to be treated as 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.

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.

As at 30 June 2007, the 9,000,001 (2006: 8,000,001) share options are fully vested and exercisable.

At 30 June 2007, the fair value of the share options issued under this arrangement included in equity compensation reserve was $104,000 (2006: $83,200).

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 group 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.

There were no gift shares issued for the year ended 30 June 2007 (2006: $31,797) and accordingly, no amounts have been recognized as employee expenses and in contributed equity (2006: $31,797).

Executive and Senior Management service agreements

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

Letters of employment for senior executives 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 July each year;
- 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 group 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

Remuneration report continued

three months notice. The agreement provides for a total remuneration package (excluding share based payments) 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.

Director and executive remuneration

Details of the directors and the five company executives and group executives who received the highest remuneration for their services as directors and executives of the company and/or the Group during the year:

	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Share-based payments Equity settled			
	Salary & fees	Bonus	Non-monetary	Super-annuation		Shares & units	Options & rights	Total	% Consisting of options
2007	$	$	$	$	$	$	$	$	%
Directors									
Non-Executive Directors									
Michael Butler (Independent)	133,388	–	–	6,612	–	–	–	140,000	–
Andrew Cruickshank	91,743	–	–	8,257	–	–	–	100,000	–
John Harvey (Independent)	26,112	–	–	2,350	–	–	–	28,462	–
Directors – Executive									
Christopher Aylward, Executive Chairman	183,486	–	–	16,514	–	–	–	200,000	–
Clive Appleton, Managing Director	637,314	–	–	12,686	–	–	20,800	670,800	3.1%
Howard Brenchley, Chief Investment Officer	487,314	–	–	12,686	–	–	–	500,000	–
Executives									
Warren Boothman (i)	192,815	20,000	–	12,686	–	–	29,163	254,664	11.5%
Michael Doble (ii)	295,565	50,000	–	12,686	–	–	154,634	512,885	30.1%
John Freemantle (i)	239,034	50,000	–	12,686	–	–	–	301,720	–
Michael Hodgson (ii)	231,892	50,000	26,215	12,686	11,872	–	–	332,665	–
Peter Nicholson (i)	142,009	16,000	–	12,686	6,931	–	–	177,626	–
Charles Raymond (ii)	203,090	50,000	–	12,686	–	–	154,634	420,410	36.8%
Total compensation: (Group)	2,863,762	236,000	26,215	135,221	18,803	–	359,231	3,639,232	
Total compensation: (Company)	2,133,215	86,000	–	97,163	6,931	–	49,963	2,373,272	

(i) Company and Group

(ii) Group Only

Remuneration report continued

	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Share-based payments Equity settled			
	Salary & fees	Bonus	Non-monetary	Super-annuation		Shares & units	Options & rights	Total	% Consisting of options
2006	$	$	$	$	$	$	$	$	%
Directors									
Non-Executive Directors									
Michael Butler (Independent)	58,104	–	–	5,229	–	–	–	63,333	–
Andrew Cruickshank	91,743	–	–	8,257	–	–	–	100,000	–
Directors – Executive									
Christopher Aylward, Executive Chairman	183,486	–	–	16,514	–	–	–	200,000	–
Clive Appleton, Managing Director	644,926	–	–	12,139	–	–	20,800	677,865	3.1%
Howard Brenchley, Chief Investment Officer	481,877	–	–	12,139	–	–	–	494,016	–
Executives									
Warren Boothman (i)	185,406	120,000	–	12,139	–	1,000	–	318,545	–
Michael Doble (ii)	286,316	80,000	–	12,139	–	1,000	59,947	439,402	13.6%
John Freemantle (i)	84,482	18,750	–	3,982	–	1,000	–	108,214	–
Michael Hodgson (ii)	262,677	223,129	29,914	12,139	–	1,000	–	528,859	–
Peter Nicholson (i)	148,806	30,000	–	12,139	–	1,000	–	191,945	–
Charles Raymond (ii)	204,085	150,000	–	12,139	–	1,000	59,947	427,171	14.0%
Total compensation: (Group)	2,631,908	621,879	29,914	118,955	–	6,000	140,694	3,549,350	
Total compensation: (Company)	1,878,830	168,750	–	82,538	–	3,000	20,800	2,153,918	

(i) Company and Group

(ii) Group Only

Value of options issued to directors and executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified directors and executives:

	Value of options granted at the grant date (i)	Value of options exercised at the exercise date	Value of options lapsed at the date of lapse	Total
2007	$	$	$	$
Executives				
Clive Appleton	–	245,773	–	245,773
Warren Boothman	71,817	2,550	–	74,367
Michael Doble	–	12,750	–	12,750
Michael Hodgson	–	6,375	–	6,375
Peter Nicholson	–	8,500	–	8,500
Charles Raymond	–	1,949	–	1,949

Remuneration report continued

2006	Value of options granted at the grant date (i) $	Value of options exercised at the exercise date $	Value of options lapsed at the date of lapse $	Total $
Executives				
Warren Boothman	–	1,324	–	1,324
Michael Doble	331,561	6,621	–	338,182
Michael Hodgson	–	3,311	–	3,311
Peter Nicholson	–	4,414	–	4,414
Charles Raymond	331,561	1,324	–	332,885

(i) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Exercise price $	Fair value at grant date $
(1) Issued 10 September 2004 *	10,756,349	10.09.2004	$0.31	107,563
(2) Issued 20 June 2005 *	645,000	20.06.2005	$1.00	6,450
(3) Issued 28 February 2006 *	2,000,000	28.02.2006	$1.97	663,122
(4) Issued 3 October 2006 *	440,000	03.10.2006	$2.84	210,663

(*) In accordance with the terms of the share-based arrangement, options issued vest from 30 June 2005 to 30 June 2009, upon meeting certain performance criteria.

The share options expire on the termination of the individual director and employees employment.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 35 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 35 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 19 of the annual report.

Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Clive Appleton
Director

Melbourne, 23 August 2007

Deloitte.

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The Board of Directors
APN Property Group Limited
Level 30
101 Collins Street
MELBOURNE VIC 3000

23 August 2007

Dear Board Members

APN Property Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Property Group Limited.

As lead audit partner for the audit of the financial statements of APN Property Group Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Peter A Caldwell
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report
to the members of APN Property Group Limited

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of APN Property Group Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the APN Property Group Limited and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 22 to 66.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.6 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 13 to 18 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report

The directors of the APN Property Group Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

Deloitte.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of APN Property Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

(b) the financial report and notes also complies with International Financial Reporting Standards as disclosed in Note 3.

Auditor's Opinion on the AASB 124 Compensation Disclosures contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 13 to 18 under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.6 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A Caldwell
Partner
Chartered Accountants
Melbourne, 23 August 2007

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated group; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Clive Appleton
Director

Melbourne, 23 August 2007

Income statement

For the financial year ended 30 June 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Continuing operations					
Revenue	6	43,127	23,700	25,164	10,000
Cost of sales		(3,726)	(3,777)	–	–
Gross profit		39,401	19,923	25,164	10,000
Finance income	7	2,387	708	1,204	133
Share of profits of associates and jointly controlled entities accounted for using the equity method		(2,627)	2,656	–	–
Administration expenses		(13,975)	(8,149)	(10,859)	(1,010)
Finance costs	7	(215)	(292)	(164)	(272)
Profit before tax	8	24,971	14,846	15,345	8,851
Income tax expense	9	(7,412)	(4,434)	2,891	342
Profit for the year from continuing operations		17,559	10,412	18,236	9,193
Discontinued operations					
Profit for the year from discontinued operations	8, 29	(154)	1,608	–	–
Profit for the year		17,405	12,020	18,236	9,193
Attributable to:					
Equity holders of the parent		17,405	12,020	18,236	9,193
Earnings per share					
From continuing and discontinued operations:					
Basic (cents per share)	24	14.20	10.81	–	–
Diluted (cents per share)	24	13.80	10.39	–	–
From continuing operations:					
Basic (cents per share)	24	14.32	9.36	–	–
Diluted (cents per share)	24	13.92	9.00	–	–

Notes to the financial statements are included on pages 28 to 66.

Balance sheet

As at 30 June 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Current assets					
Cash and cash equivalents		21,676	12,081	2,294	744
Trade and other receivables	10	22,883	11,041	33,193	11,594
Other financial assets	11	13,379	1,737	43,550	32,111
Other asset	16	281	381	172	170
Total current assets		58,219	25,240	79,209	44,619
Non-current assets					
Investments accounted for using the equity method	12	29	2,656	–	–
Property, plant and equipment	13	618	682	392	175
Software assets	14	274	200	241	124
Deferred tax assets	9	3,608	2,254	3,569	1,397
Goodwill	15	13,503	13,503	–	–
Total non-current assets		18,032	19,295	4,202	1,696
Total assets		76,251	44,535	83,411	46,315
Current liabilities					
Trade and other payables	17	5,619	6,240	1,463	373
Borrowings	18	–	2,675	–	–
Current tax liabilities	9	3,004	4,571	2,416	4,571
Provisions	19	381	691	363	2
Total current liabilities		9,004	14,177	4,242	4,946
Non-current liabilities					
Provisions	19	41	26	41	–
Other liabilities	20	173	–	173	–
Total non-current liabilities		214	26	214	–
Total liabilities		9,218	14,203	4,456	4,946
Net assets		67,033	30,332	78,955	41,369
Equity					
Issued capital	21	50,636	20,949	70,404	40,717
Reserves	22	274	165	341	178
Retained earnings	23	16,123	9,218	8,210	474
Equity attributable to equity holders of the parent		67,033	30,332	78,955	41,369
Total equity		67,033	30,332	78,955	41,369

Notes to the financial statements are included on pages 28 to 66.

Statements of changes in equity

For the financial year ended 30 June 2007

	Fully paid ordinary shares $'000	Retained earnings $'000	Equity compensation reserve $'000	Foreign currency translation reserve $'000	Total attributable to equity holders of the parent $'000
Consolidated					
Balance at 1 July 2006	20,949	9,218	178	(13)	30,332
Share issue costs capitalised directly in equity	(981)	–	–	–	(981)
Deferred tax on transaction cost recognised directly in equity	294	–	–	–	294
Exchange differences arising on translation of foreign subsidiary company	–	–	–	(54)	(54)
Net income recognised directly in equity	(687)	–	–	(54)	(741)
Profit for the period	–	17,405	–	–	17,405
Total recognised income and expense	(687)	17,405	–	(54)	16,664
Payment of dividends (note 25)	–	(10,500)	–	–	(10,500)
Share options exercised by employees	374	–	–	–	374
New capital raised through placement	30,000	–	–	–	30,000
Recognition of share based payments	–	–	163	–	163
Balance at 30 June 2007	50,636	16,123	341	(67)	67,033
Balance at 1 July 2005	20,151	4,181	62	–	24,394
Listing costs capitalised directly in equity	(19)	–	–	–	(19)
Exchange differences arising on translation of foreign subsidiary company	–	–	–	(13)	(13)
Net income recognised directly in equity	(19)	–	–	(13)	(32)
Profit for the period	–	12,020	–	–	12,020
Total recognised income and expense	(19)	12,020	–	(13)	11,988
Payment of dividends (note 25)	–	(6,983)	–	–	(6,983)
Issue of shares under share option plan	785	–	–	–	785
Issue of share capital	32	–	–	–	32
Recognition of share based payments	–	–	116	–	116
Balance at 30 June 2006	20,949	9,218	178	(13)	30,332

Notes to the financial statements are included on pages 28 to 66.

Statements of changes in equity

For the financial year ended 30 June 2007

	Fully paid ordinary shares $'000	Retained earnings $'000	Equity compensation reserve $'000	Foreign currency translation reserve $'000	Total attributable to equity holders of the parent $'000
Company					
Balance at 1 July 2006	40,717	474	178	–	41,369
Share issue costs capitalised directly in equity	(981)	–	–	–	981
Deferred tax on transaction cost recognised directly in equity	294	–	–	–	(294)
Net income recognised directly in equity	(687)	–	–	–	(687)
Profit for the period	–	18,236	–	–	18,236
Total recognised income and expense	(687)	18,236	–	–	17,549
Payment of dividends (note 25)	–	(10,500)	–	–	(10,500)
Share options exercised by employees	374	–	–	–	374
New capital raised through placement	30,000	–	–	–	30,000
Recognition of share based payments	–	–	163	–	163
Balance at 30 June 2007	70,404	8,210	341	–	78,955
Balance at 1 July 2005					
– As previously reported	39,919	(1,773)	62	–	38,208
– Effect of error on share based payment expense	–	37	–	–	37
As restated	39,919	(1,736)	62	–	38,245
Listing costs capitalised directly in equity	(19)	–	–	–	(19)
Net income recognised directly in equity	(19)	–	–	–	(19)
Profit for the period	–	9,193	–	–	9,193
Total recognised income and expense	(19)	9,193	–	–	9,174
Payment of dividends (note 25)	–	(6,983)	–	–	(6,983)
Issue of shares under share option plan	785	–	–	–	785
Issue of share capital	32	–	–	–	32
Recognition of share based payments	–	–	116	–	116
Balance at 30 June 2006	40,717	474	178	–	41,369

Notes to the financial statements are included on pages 28 to 66.

Statements of cash flows

For the financial year ended 30 June 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Cash flows from operating activities					
Receipts from customers		38,316	96,466	–	715
Payments to suppliers and employees		(21,826)	(26,411)	(1,304)	(1,201)
Interest received		2,136	2,190	1,210	132
Dividends and distribution received		251	64	150	10,000
Interest and other costs of finance paid		(215)	(271)	(164)	(272)
Income taxes paid		(9,947)	(2,199)	(9,947)	(2,199)
Net cash provided by/(used in) operating activities	30(b)	8,715	69,839	(10,055)	7,175
Cash flows from investing activities					
Payment for investment securities		(11,204)	(1,197)	(10,856)	(68)
Payments for property, plant and equipment		(552)	(720)	(485)	(301)
Net cash (used in)/provided by investing activities		(11,756)	(1,917)	(11,341)	(369)
Cash flows from financing activities					
Repayment of borrowings		(2,675)	(67,718)	–	(5,703)
(Payments)/Proceeds from related party borrowings		(3,528)	214	4,053	4,395
Proceeds from issues of equity securities		30,374	817	30,374	817
Payment for share issue costs		(981)	(19)	(981)	(19)
Dividends paid to equity holders of the parent		(10,500)	(6,983)	(10,500)	(6,983)
Net cash provided by/(used in) financing activities		12,690	(73,689)	22,946	(7,493)
Net increase/(decrease) in cash and cash equivalents		9,649	(5,767)	1,550	(687)
Net effect of foreign exchange translations		(54)	–	–	–
Cash and cash equivalents at the beginning of the financial year		12,081	17,848	744	1,431
Cash and cash equivalents at the end of the financial year	30(a)	21,676	12,081	2,294	744

Notes to the financial statements are included on pages 28 to 66.

Notes to the consolidated financial statements

For the financial year ended 30 June 2007

1. General information

APN Property Group Limited (the company) is a listed public company, incorporated and operating in Australia.

APN Property Group Limited's registered office and its principal place of business is at Level 30, 101 Collins Street, Melbourne Victoria 3000.

2. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas:

- investments classified as at fair value through profit or loss (AASB 2005-04 'Amendments to Australian Accounting Standards'); and
- financial guarantee contracts (AASB 2005-09 'Amendments to Australian Accounting Standards').

The adoption of these new and revised Standards and Interpretations has not resulted in a change to the Group's accounting policies in relation to business combinations involving entities under common control. Such business combinations were formerly within the scope of AASB 3 'Business Combinations', but are now scoped out of that Standard by AASB 2005-6 'Amendments to Australian Accounting Standards'.

The impact of these changes in accounting policies is discussed in detail later in this note.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue
  Effective for annual reporting periods beginning on or after 1 January 2007
- AASB 101 'Presentation of Financial Statements' – revised standard
  Effective for annual reporting periods beginning on or after 1 January 2007
- Interpretation 10 'Interim Financial Reporting and Impairment'
  Effective for annual reporting periods beginning on or after 1 November 2006
- AASB 8 'Operating Segments' and consequential amendments to other accounting standards
  Effective for annual reporting periods on or after 1 January 2009
- AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'
  Effective for annual reporting periods on or after 1 July 2007

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the Group. Relating to AASB 8, no assessment to the consequential amendments to other accounting standards has been made. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company and the Group's financial instruments and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 July 2007.

Limitation of ability to designate financial assets and financial liabilities through profit or loss

The Australian Accounting Standards Board ('AASB') released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' by limiting the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss'.

Financial assets that can no longer be designated as 'at fair value through profit or loss' are now classified into either loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate, and measured at amortised cost or at fair value with changes in fair value recognised in equity, according to their classification. Financial liabilities that can no longer be designated as 'at fair value through profit or loss' are classified as 'other' financial liabilities and measured at amortised cost. Although ordinarily the designation of a financial asset as available-for-sale is made on initial recognition, the transitional provisions of the Standard allow such designation to be made on the date of de-designation (1 July 2005).

The changes introduced by AASB 2005-4 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 July 2005). Financial assets and financial liabilities designated by the Group as "at fair value through profit or loss" continue to meet the revised designation rules and, accordingly, the application of these amendments has no impact on the financial statements.

Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured

2. Adoption of new and revised Accounting Standards continued

initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 3(q).

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 July 2005). The Group is party to a financial guarantee contract where an entity in the Group has provided a financial guarantee to a bank in respect of an entity external to the Group.

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised less, where appropriate, cumulative amortisation.

The impact of this change in accounting policy has not resulted in a change in the consolidated financial statements at the beginning of the comparative period or the current accounting period.

Accounting for business combinations involving entities or businesses under common control

The AASB released AASB 2005-6 'Amendments to Australian Accounting Standards' in June 2006. AASB 2005-6 amends AASB 3 'Business Combinations' by removing business combinations involving entities or business under common control from its scope. The effect of the scope amendment is that there is no longer any explicit guidance under Accounting Standards as to how to account for these types of business combinations.

Due to the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' permitting the non-restatement of pre-transition business combinations, the amendment has no effect on the financial statements of the company or Group for the current or prior reporting periods. However, future transactions involving entities under common control will be affected.

3. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 23 August 2007.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal

3. Significant accounting policies continued

groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Cash and cash equivalents

Cash comprises cash on hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(f) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

(i) has been acquired principally for the purpose of selling in the near future;

(ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 31.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Fair value is determined in the manner described in note 31. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or

3. Significant accounting policies continued

loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(g) Financial instruments issued by the company

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 3(q).

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(h) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 3(b)); and

3. Significant accounting policies continued

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

(i) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(j) Impairment of other tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease (refer note 3(o)).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase (refer note 3(o)).

(k) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

3. Significant accounting policies continued

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. APN Property Group Limited is the head entity in the tax-consolidated group. 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 in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 9 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(l) Joint venture arrangements

Jointly controlled entities

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Investments in jointly controlled entities where the Group is an investor but does not have joint control over that entity are accounted for as an available-for-sale financial asset or, if the Group has significant influence, by using the equity method.

(m) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3(b). Contingent rentals are recognised as expenses in the periods in which they are incurred.

3. Significant accounting policies continued

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Group's control and the Group remains committed to a sale.

(o) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of an annual independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income, as appropriate. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve, net of any related taxes, is transferred directly to retained earnings.

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(q) Revenue

Revenue is measured at the fair value of the consideration received or receivable net of the amount of goods and services tax (GST).

Funds Management Services

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

Construction contracts

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when

3. Significant accounting policies continued

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 works 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.

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.

Dividend and interest revenue
Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(r) Share-based payments

Share-based payments made to employees and others, that grant rights over the shares of the parent entity, APN Property Group Limited, are accounted for as equity-settled share-based payment transactions when the rights over the shares are granted by APN Property Group Limited. As APN Property Group Limited does not require reimbursement for the cost of the grant, amounts relating to the grant are deemed a contribution by APN Property Group Limited in its capacity as owner.

Equity-settled share based-payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

For cash-settled share based-payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(s) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(t) Intangible assets – software assets

Software assets relating to software development costs which have been capitalised at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful live of 3 years. The estimated useful life and amortisations method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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.

4. Critical accounting judgements and key sources of estimation uncertainty continued

Critical judgements in applying the entity's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Provision for bonus

The result for financial year ended 30 June 2007 included a provision for bonus of $850,000. This provision represents the Director's best estimate of the bonus payment for the current financial year.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cashflows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was $13.5 million.

5. Business and geographical segments

Segment information is presented in respect of the consolidated group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the consolidated group'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 baisis. Unallocated items mainly comprise borrowings, expenses and corporate assets.

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.

Information on business segments

The consolidated group comprises the following main business segments, based on the consolidated group'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)

Segment revenues

	External sales		Inter-segment(i)		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations						
On-going management fees – Funds management	31,640	19,917	–	–	31,640	19,917
Transaction fee – Funds management	11,487	3,783	–	–	11,487	3,783
	43,127	23,700	–	–	43,127	23,700
Discontinued operations						
Construction & development	–	35,188	–	180	–	35,368
Total of all segments					43,127	59,068
Eliminations					–	(180)
Consolidated revenue					43,127	58,888

(i) Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

5. Business and geographical segments continued

Segment result

	2007 $'000	2006 $'000
Continuing operations		
On-going management fees – Funds management	17,687	10,036
Transaction fee – Funds management	8,682	5,888
	26,369	15,924
Eliminations	–	180
Unallocated	(1,398)	(1,258)
Profit before tax	24,971	14,846
Income tax expense	(7,412)	(4,434)
Profit for the year from continuing operations	17,559	10,412
Discontinued operations		
Construction and development	(221)	2,548
Eliminations	–	(180)
Profit before tax	(221)	2,368
Income tax expense	67	(760)
Profit for the year from discontinued operations	(154)	1,608
Profit for the year	17,405	12,020

Segment assets and liabilities

	Assets		Liabilities	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Funds management	37,534	38,059	3,972	9,566
Construction and development	1,124	4,552	788	1,910
Total of all segments	38,658	42,611	4,760	11,476
Eliminations	–	(2,550)	–	(2,550)
Unallocated	37,593	4,524	4,458	5,327
Consolidated	76,251	44,585	9,218	14,253

Other segment information

	Funds management		Construction and development		Unallocated		Consolidated	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Carrying value of investments accounted for using the equity method	29	2,656	–	–	–	–	29	2,656
Share of net profit/(loss) of associates and jointly controlled entities accounted for under the equity method	(2,627)	2,656	–	–	–	–	(2,627)	2,656
Capital expenditure	552	411	–	8	–	301	552	720
Depreciation and amortisation of segment assets	401	357	–	41	–	2	401	400

5. Business and geographical segments continued

Information on geographical segments

The Group operates its funds management business primarily in two principal geographical areas – Australia and the Europe.

The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Australia	38,090	58,888	73,621	44,330	485	548
Europe	5,037	–	2,630	255	67	172

6. Revenue

An analysis of the Group's revenue for the year, from both continuing and discontinued operations, is as follows:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations				
On-going management fee – Funds management	31,640	19,917	–	–
Transaction fee – Funds management	11,487	3,783	14	–
Dividend income	–	–	25,150	10,000
	43,127	23,700	25,164	10,000
Discontinued operations				
Construction and development	–	21,194	–	–
Sale of development inventories	–	13,994	–	–
	–	35,188	–	–
	43,127	58,888	25,164	10,000

7. Finance income/(costs)

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations				
Interest income	2,136	644	1,204	133
Distribution and dividend income	251	64	–	–
	2,387	708	1,204	133
Interest expense	(215)	(292)	(164)	(272)
Discontinued operations				
Interest income	–	1,546	–	–
Interest expense	–	–	–	–
	–	1,546	–	–

8. Profit for the year

Other expenses

Profit/(loss) for the year has been arrived after crediting/(charging) the following expenses:

	Consolidated						Company					
	Continuing		Discontinued		Total		Continuing		Discontinued		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Project and construction activities	–	–	621	21,255	621	21,255	–	–	–	–	–	–
Cost of development inventories sold	–	–	–	14,140	–	14,140	–	–	–	–	–	–
Depreciation and amortisation	401	359	–	41	401	400	151	2	–	–	151	2
Employee benefits expenses:												
Salaries and wages	5,961	3,933	–	1,654	5,961	5,587	5,094	88	–	–	5,094	88
Superannuation contributions	369	121	–	165	369	286	344	9	–	–	344	9
Share based payments	163	116	–	–	163	116	18	9	–	–	18	9
Provision for long service and annual leave	105	21	–	–	105	21	88	2	–	–	88	2
Change in fair value of financial assets designated as at fair value through profit or loss	(629)	–	–	–	(629)	–	(438)	–	–	–	(438)	–
Development loss provision	–	–	(400)	327	(400)	327	–	–	–	–	–	–
Construction loss provision	–	–	–	1,253	–	1,253	–	–	–	–	–	–
Operating lease expense	1,203	–	–	256	1,203	256	959	–	–	–	959	–

9. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Tax expense/(income) comprises:				
Current tax expense/(income)	8,499	7,240	(1,013)	–
Adjustments recognised in the current year in relation to the current tax of prior years	(90)	–	–	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(1,064)	(3,444)	(1,878)	78
Utilisation of tax losses	–	1,818	–	–
Benefit of tax losses recognized	–	(420)	–	(420)
Total tax expense/(income)	7,345	5,194	(2,891)	(342)
Attributable to:				
Continuing operations	7,412	4,434	(2,891)	(342)
Discontinued operations (note 29)	(67)	760	–	–
	7,345	5,194	(2,891)	(342)
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from continuing operations	24,971	14,846	15,345	8,851
Profit from discontinued operations	(221)	2,368	–	–
Profit from operations	24,750	17,214	15,345	8,851
Income tax expense calculated at 30%	7,425	5,164	4,604	2,655
Effect of non-assessable dividends received from wholly owned subsidiary company	–	–	(7,500)	(3,000)
Effect of expenses that are not deductible in determining taxable profit	10	30	5	3
	7,435	30	(2,891)	(342)
Adjustments recognised in the current year in relation to the current tax of prior years	(90)	–	–	–
	7,345	5,194	(2,891)	(342)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Income tax recognised directly in equity

The deferred tax assets of $294,000 (2006:Nil) arising from the capital raising cost was recognised directly to equity.

Current tax liabilities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current tax liabilities				
Income tax payable attributable to:				
Parent entity	–	–	–	–
Entities in the tax-consolidated group	2,416	4,571	2,416	4,571
Other	588	–	–	–
	3,004	4,571	2,416	4,571

9. Income taxes continued

Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Consolidated						
Construction and development activities	–	–	–	–	–	–
Deferred construction profits	–	–	–	–	–	–
Development expenditure	–	120	–	–	–	120
Deferred development profit	–	–	–	–	–	–
Provisions and accruals	527	761	(53)	–	474	761
Fixed asset written off	41	–	–	–	41	–
Prepayments	–	–	(13)	(50)	(13)	(50)
Capital raising cost recognised directly in equity	688	525	–	–	688	525
Unrealised gain on revaluation of investment	–	–	(188)	–	(188)	–
Tax value of loss carry-forwards recognised	2,606	898	–	–	2,606	898
Net tax assets/(liabilities)	3,862	2,304	(254)	(50)	3,608	2,254
The Company						
Provisions and accruals	458	24	–	–	458	24
Prepayments	–	–	(52)	(50)	(52)	(50)
Capital raising cost recognised directly in equity	688	525	–	–	688	525
Unrealised gain on revaluation of investment	–	–	(131)	–	(131)	–
Tax value of loss carry-forwards recognised	2,606	898	–	–	2,606	898
Net tax assets/(liabilities)	3,752	1,447	(183)	(50)	3,569	1,397

Tax consolidation

Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is APN Property Group Limited. The members of the tax-consolidated group are identified at note 28.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, APN Property Group Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Notes to the consolidated financial statements

For the financial year ended 30 June 2007

10. Trade and other receivables

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade receivables	14,921	6,627	218	68
Controlled entities receivables	–	–	29,188	11,917
Provision for doubtful debts	–	–	(1,438)	(1,438)
Net receivables from controlled entities	–	–	27,750	10,479
Other debtors	3,050	3,030	513	11
Loans to other related parties	4,912	1,384	4,712	1,036
	22,883	11,041	33,193	11,594

11. Other financial assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments carried at cost:				
Non-current				
Investments in subsidiaries	–	–	31,572	31,399
Financial assets carried at fair value through profit and loss:				
Current				
Investment in related parties	13,379	1,737	11,978	712
	13,379	1,737	43,550	32,111

12. Investments accounted for using the equity method

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments in jointly controlled entities	29	2,656	–	–

			Ownership interest	
Name of entity	Principal activity	Country of incorporation	2007 %	2006 %
APN/UKA Management Limited	Funds management	The Isle of Man	50	50
APN/UKA Management (No. 2) Limited	Funds management	The Isle of Man	50	N.A.

12. Investments accounted for using the equity method continued

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

	Consolidated 2007 $'000	Consolidated 2006 $'000
Financial position:		
Current assets	5,016	5,351
Non-current assets	344	372
Current liabilities	(4,938)	(411)
Non-current liabilities	(364)	–
Net assets	58	5,312
Group's share of jointly controlled entities' net assets	29	2,656
Financial performance:		
Income	7,401	7,643
Expenses	(10,028)	(2,331)
Group's share of jointly controlled entities' profit/(loss) before tax	(2,627)	2,656
Group's share of jointly controlled entities' income tax expense	–	–
Group's share of jointly controlled entities' profit/(loss)	(2,627)	2,656

Contingent liabilities and capital commitments

At 30 June 2007, there are no contingent liabilities, capital commitments and other expenditure commitments of associates and jointly controlled entities.

13. Property, plant and equipment

Consolidated	Buildings at fair value $'000	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2005	11	190	710	911
Additions	–	69	489	558
Balance at 30 June 2006	11	259	1,199	1,469
Additions	–	222	161	383
Transfers	–	173	(179)	(6)
Write-off	(11)	(296)	(433)	(740)
Net foreign currency exchange differences	–	–	(22)	(22)
Balance at 30 June 2007	–	358	726	1,084
Accumulated depreciation/amortisation and impairment				
Balance at 1 July 2005	–	50	400	450
Depreciation expense	–	148	189	337
Balance at 30 June 2006	–	198	589	787
Depreciation expense	–	90	219	309
Transfers	–	81	(81)	–
Write-off	–	(270)	(348)	(618)
Net foreign currency exchange differences	–	–	(12)	(12)
Balance at 30 June 2007	–	99	367	466

13. Property, plant and equipment continued

Consolidated	Buildings at fair value $'000	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Total $'000
Net book value				
As at 30 June 2006	11	61	610	682
As at 30 June 2007	–	259	359	618

Company	Buildings at fair value $'000	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2005	–	–	–	–
Additions	–	63	114	177
Disposals	–	–	–	–
Balance at 30 June 2006	–	63	114	177
Additions	–	211	109	320
Transfers	–	48	(54)	(6)
Balance at 30 June 2007	–	322	169	491
Accumulated depreciation/amortisation and impairment				
Balance at 1 July 2005	–	–	–	–
Depreciation expense	–	2	–	2
Disposals	–	–	–	–
Balance at 30 June 2006	–	2	–	2
Depreciation expense	–	69	28	97
Transfers	–	–	–	–
Balance at 30 June 2007	–	71	28	99
Net book value				
As at 30 June 2006	–	61	114	175
As at 30 June 2007	–	251	141	392

14. Software assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Gross carrying amount				
Balance at beginning of financial year	288	126	124	–
Additions	169	162	165	124
Transfers	6	–	6	–
Write-off	(14)	–	–	–
Balance at end of financial year	449	288	295	124
Accumulated amortisations				
Balance at beginning of financial year	88	25	–	–
Amortisations (i)	92	63	54	–
Transfers	–	–	–	–
Write-off	(5)	–	–	–
Balance at end of financial year	175	88	54	–
Net book value	274	200	241	124

(i) Amortisation expense is included in the line item 'depreciation and amortisation expense' in the income statements.

15. Goodwill

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Gross carrying amount				
Balance at beginning of financial year	13,503	13,503	–	–
Balance at end of financial year	13,503	13,503	–	–
Accumulated impairment losses				
Balance at beginning of financial year	–	–	–	–
Balance at end of financial year	–	–	–	–
Net book value				
At the beginning of the financial year	13,503	13,503	–	–
At the end of the financial year	13,503	13,503	–	–

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 (2006: $13,503,000) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired for the Development and Delivery business.

The recoverable amount of the Development and Delivery cash generating unit is based on value in use calculations which uses cash flow projections based on financial budgets approved by management covering a 3 year-period, and a discount rate of 15% p.a. Cash flows beyond that 3 year-period have been extrapolated using a growth rate appropriate for markets and industries in which the Development and Delivery business operates.

The key assumptions used in the value in use calculations for Development and Delivery cash generating unit are based on the budgeted revenues from development management and investment activities. The value assigned to the assumption reflect past experience, except for the growth factor, which is consistent with management's plans. Management believes that the budgeted revenues per year for the next 3 years is reasonably achieveable.

16. Other assets

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Accrued income	–	160	–	4
Prepayments	281	221	172	166
	281	381	172	170

17. Trade and other payables

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade payables	1,708	1,370	372	88
Retentions withheld	25	227	–	–
Other creditors and accruals	3,886	4,643	1,091	285
	5,619	6,240	1,463	373

18. Borrowings

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Non-interest bearing loans				
Unsecured – at amortised cost				
Current				
Loans from related party	–	2,675	–	–
Interest bearing loans				
Financing arrangements				
The Group has access to the following lines of credit:				
Total facilities available:				
Bank loans	5,000	5,000	5,000	5,000
Project funding facilities	10,000	10,000	10,000	10,000
Loan from related party	–	2,675	–	–
	15,000	17,675	15,000	15,000
Facilities utilized at balance date:				
Bank loans	–	–	–	–
Project funding facilities	–	–	–	–
Loan from related party	–	2,675	–	–
	–	2,675	–	–
Facilities not utilized at balance date:				
Bank loans	5,000	5,000	5,000	5,000
Project funding facilities	10,000	10,000	10,000	10,000
Loan from related party	–	–	–	–
	15,000	15,000	15,000	15,000

Bank loans

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

19. Provisions

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Employee benefits	381	291	363	2
Provision for development project (i)	–	400	–	–
	381	691	363	2
Non-current				
Employee benefits	41	26	41	–
	422	717	404	2

(i) This relates to a provision for costs anticipated to be incurred during the defect period for projects completed during the financial year.

	Employee benefits $'000	Development projects (i) $'000	Total $'000
Consolidated			
At 1 July 2006	317	400	717
Arising during the year	105	–	105
Reversal during the year	–	(400)	(400)
At 30 June 2007	422	–	422
Company			
At 1 July 2006	2	–	2
Arising during the year	402	–	402
At 30 June 2007	404	–	404

20. Other liabilities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Non-current				
Lease incentives	173	–	173	–
	173	–	173	–

In relation to rental expense representing the straight lining of fixed rental expense increases over the lease term.

21. Issued capital

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
129,268,233 ordinary shares (2006: 117,063,528)	50,636	20,949	70,404	40,717

Changes to the then Corporations Law abolished the authorized capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorized capital and issued shares do not have a par value.

	2007		2006	
	No. '000	$'000	No. '000	$'000
Consolidated				
Fully paid ordinary shares				
Balance at beginning of financial year	117,063	20,949	115,049	20,151
New capital raised through placement	11,765	30,000	–	–
Share issue costs	–	(981)	–	–
Deferred tax on transaction cost recognised directly in equity	–	294	–	–
Listing costs	–	–	–	(19)
Share options exercised by employees	–	374	–	785
Share options issued under the APN Property Group Employee Share Purchase Plan	440	–	2,000	–
Employee gift shares issued	–	–	14	32
Balance at end of financial year	129,268	50,636	117,063	20,949
Company				
Fully paid ordinary shares				
Balance at beginning of financial year	117,063	40,717	115,049	39,919
New capital raised through placement	11,765	30,000	–	–
Share issue costs	–	(981)	–	–
Deferred tax on transaction cost recognised directly in equity	–	294	–	–
Listing costs	–	–	–	(19)
Share options exercised by employees	–	374	–	785
Share options issued under the APN Property Group Employee Share Purchase Plan	440	–	2,000	–
Employee gift shares issued	–	–	14	32
Balance at end of financial year	129,268	70,404	117,063	40,717

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

On 3 October 2006, APN Property Group Limited issued 11,765,000 ordinary shares for $30,000,000 as part of its capital raising activity and incurred share issue costs of $981,000 which have been recognised directly in equity.

On 2 October 2006, 440,000 share options were issued to eligible employees under the APN Property Group Employee Share Purchase Plan. These share options had a fair value at grant date ranging from $0.4347 t0 $0.8282 per share option.

At 30 June 2007, the fair value of the share options issued under this arrangement included in equity-settled employee benefits reserve was $272,000 (2006: Nil).

During the reporting period year, $374,000 (2006: $785,000) of share options issued under the Plan and the Clive Appleton Share Trust have been exercised as a result of the partial repayment of the outstanding loan as well as through dividend payments.

At 30 June 2007, included in the fully paid ordinary shares of 129,268,233 (2006: 117,063,528) are 11,987,130 (2006: 12,616,529) treasury shares relating to the employee share option plan.

22. Reserves

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Equity-settled employee benefits	341	178	341	178
Foreign currency translation	(67)	(13)	–	–
	274	165	341	178
Equity-settled employee benefits reserve				
Balance at beginning of financial year	178	62	178	62
Share-based payment	163	116	163	116
Balance at end of financial year	341	178	341	178

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when all the options are fully exercised and all loans outstanding are fully repaid. Further information about share-based payments to employees is made in note 32 to the financial statements.

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Foreign currency translation reserve				
Balance at beginning of financial year	(13)	–	–	–
Translation of foreign operations	(54)	(13)	–	–
Balance at end of financial year	(67)	(13)	–	–

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

23. Retained earnings

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance at beginning of financial year				
– As previously reported	9,218	4,181	474	(1,773)
– Effect of error on share based payment expense	–	–	–	37
As restated	9,218	4,181	474	(1,736)
Net profit attributable to members of the parent entity	17,405	12,020	18,236	9,193
Dividends provided for or paid (note 25)	(10,500)	(6,983)	(10,500)	(6,983)
Balance at end of financial year	16,123	9,218	8,210	474

The equity-settled employee benefits reserve at 30 June 2006 for the Company has been restated for the effect of the error on recognition of share based-payment expense previously recognised in the Company, now properly allocated to the subsidiary company, where the services of the employees are rendered. Income statements and retained earnings for the year ended 30 June 2006 have been restated accordingly.

24. Earnings per share

	Consolidated 2007 Cents per share	Consolidated 2006 Cents per share
Basic earnings per share		
From continuing operations	14.32	9.36
From discontinued operations	(0.12)	1.45
Total basic earnings per share	14.20	10.81
Diluted earnings per share		
From continuing operations	13.92	9.00
From discontinued operations	(0.12)	1.39
Total diluted earnings per share	13.80	10.39

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Consolidated 2007 $'000	Consolidated 2006 $'000
Net profit	17,405	12,020
Earnings used in the calculation of basic EPS	17,405	12,020
Adjustments to exclude (profit)/loss for the period from discontinued operations	154	(1,608)
Earnings used in the calculation of basic EPS from continuing operations	17,559	10,412

	Consolidated 2007 No. '000	Consolidated 2006 No. '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	122,594	111,211

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	Consolidated 2007 $'000	Consolidated 2006 $'000
Net profit	17,405	12,020
Earnings used in the calculation of diluted EPS	17,405	12,020
Adjustments to exclude (profit)/loss for the period from discontinued operations	154	(1,608)
Earnings used in the calculation of diluted EPS from continuing operations	17,559	10,412

	Consolidated 2007 No. '000	Consolidated 2006 No. '000
Weighted average number of ordinary shares used in the calculation of basic EPS	122,594	111,211
Effect of non-vested shares on issue	3,498	4,485
Weighted average number of ordinary shares used in the calculation of diluted EPS	126,092	115,696

25. Dividends

	2007		2006	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
2006 Interim dividend: Fully franked at a 30% tax rate	–	–	4.0	4,682
2007 Interim dividend: Fully franked at a 30% tax rate	4.5	5,818	–	–
2005 Final dividend: Fully franked at a 30% tax rate	–	–	2.0	2,301
2006 Final dividend: Fully franked at a 30% tax rate	4.0	4,682	–	–
	8.5	10,500	6.0	6,983
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend: Fully franked at a 30% tax rate	5.5	7,110	4.0	4,682

On 23 August 2007, the directors declared a fully franked final dividend of 5.5 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2007, to be paid to shareholders on 12 October 2007.

	Company	
	2007 $'000	2006 $'000
Adjusted franking account balance	7,010	4,784
Impact on franking account balance of dividends not recognised	(3,047)	(2,007)
Income tax consequences of unrecognised dividends	–	–

26. Commitments for expenditure

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(a) At call investment commitments				
Future investment commitments to the APN Development Fund No. 1				
Not longer than 1 year	3,059	4,486	3,059	4,486
Longer than 1 year and not longer than 5 years	674	–	674	–
Longer than 5 years	–	–	–	–
	3,733	4,486	3,733	4,486
(b) Employee compensation commitments				
Commitments under non-cancellable employment contracts for Key management personnel not provided for in the financial statements and payable:				
Not longer than 1 year	675	1,350	675	1,350
Longer than 1 year and not longer than 5 years	–	675	–	675
Longer than 5 years	–	–	–	–
	675	2,025	675	2,025

In July 2007, the company committed to invest $5 million into the APN Development Fund No 2 (APNDF2), an emerging area of APN's business in the creation of property development funds for wholesale investors. It is expected that the calls for capital will occur in the next 5 years, however the actual timing of the cashflows have not been determined at the date of this report.

(b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

27. Leases

Operating leases

Leasing arrangements

Operating leases relate to property leases expiring from one to five years with a right of renewal at which time all terms are renegotiated.

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

Non-cancellable operating lease commitments

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Not longer than 1 year	913	979	789	853
Longer than 1 year and not longer than 5 years	4,632	3,780	4,018	3,277
Longer than 5 years	5,343	7,490	4,888	6,892
	10,888	12,249	9,695	11,022

Included in the $789,000 is an amount of $76,000 which related to the rental on 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 outgoings from Christopher Aylward.

28. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2007 %	2006 %
Parent entity			
APN Property Group Limited (i)	Australia		
Subsidiaries			
APN Funds Management Limited (ii), (iii)	Australia	100%	100%
APN Funds Management (UK) Limited	United Kingdom	100%	100%
APN Development and Delivery Pty Limited (iii)	Australia	100%	100%
FM Management Services Pty Limited (iii)	Australia	100%	100%
APN Group Pty Limited (iii)	Australia	100%	100%
APN Property Group Nominees Pty Limited (iii)	Australia	100%	100%
Australian Property Network (Vic) Pty Limited (iii)	Australia	100%	100%
APN Euro Property Fund (iv)	N.A	100%	N.A.
APN No 1 Pty Limited (iii)	Australia	100%	100%
APN No 3 Pty Limited (iii)	Australia	100%	100%
APN No 4 Pty Limited (iii)	Australia	100%	100%
APN No 5 Pty Limited (iii)	Australia	100%	100%
APN No 6 Pty Limited (iii)	Australia	100%	100%
APN No 7 Pty Limited (iii)	Australia	100%	100%
APN No 8 Pty Limited (iii)	Australia	100%	100%
APN No 9 Pty Limited (iii)	Australia	100%	100%
APN No 10 Pty Limited (iii)	Australia	100%	100%
APN No 11 Pty Limited (iii)	Australia	100%	100%
APN No 12 Pty Limited (iii)	Australia	100%	100%
APN No 13 Pty Limited (iii)	Australia	100%	100%
APN No 14 Pty Limited (iii)	Australia	100%	100%
APN No 15 Pty Limited (iii)	Australia	100%	100%

(i) APN Property Group Limited is the head entity within the tax-consolidated group.

(ii) 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, APN Funds Management Limited is deemed to be the accounting parent.

(iii) These companies are members of the tax-consolidated group.

(iv) The Fund is an open-ended managed investment scheme registered with ASIC in Australia.

29. Discontinued operations

Discontinuation of the construction and development operation

During the financial year ended 30 June 2006, the Group's construction and development segment completed its legacy projects. Although some properties are still in their retention period, it is the view of the directors that adequate allowance has been made for any outstanding completion costs. The discontinuance of the construction and development business is consistent with the Group's long-term policy to focus its activities in the fund management industries.

The combined results of the discontinued operations which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period:

	Consolidated	
	2007 $'000	2006 $'000
Profit from discontinued operations:		
Revenue (note 6)	–	35,188
Development payment received	–	4,000
Finance income (note 7)	–	1,546
	–	40,734
Expenses		
Cost of sales	(221)	(35,554)
Administration expenses	–	(2,812)
	(221)	(38,366)
Profit before tax	(221)	2,368
Attributable income tax benefit/(expense)	67	(760)
(Loss)/Profit for the year from discontinued operations	(154)	1,608
Cash flows from discontinued operations:		
Net cash flows from operating activities	(1,985)	60,836
Net cash flows from investing activities	1	–
Net cash flows from financing activities	–	(70,089)
Net cash flows	(1,984)	(9,253)

The major classes of assets and liabilities comprising the discontinued operations at balance sheet date are as follows:

	Consolidated	
	2007 $'000	2006 $'000
Trade and other receivables	1,124	2,075
Investments	–	1
Property, plants and equipment	–	182
Cash and cash equivalents	–	1,984
Deferred tax assets	–	310
Trade and other payables	–	(1,395)
Other payables	(631)	–
Provisions	(157)	(515)
	336	2,642

30. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and cash equivalents	21,676	10,097	2,294	744
Bank overdraft	–	–	–	–
	21,676	10,097	2,294	744
Cash and cash equivalents attributable to discontinued operations (note 29)	–	1,984	–	–
	21,676	12,081	2,294	744

(b) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash flows from operating activities				
Profit/(loss) for the year	17,405	12,020	18,236	9,086
Add/(less) non-cash items:				
Depreciation and amortisation	401	400	151	2
Provision for employee benefits	105	21	402	2
Employee share option expense	163	116	18	9
Development loss provision	(400)	327	–	–
Gain on revaluation of fair value of investment	(438)	–	(438)	–
Construction loss provision	–	1,253	–	–
Final dividend declared	–	–	(25,000)	–
Property, plant equipment written off	141	–	–	–
Share of profits from jointly controlled entity	2,627	(2,656)	–	–
Operating profit before changes in working capital and provisions	20,004	11,481	(6,631)	9,099
(Increase)/decrease in trade receivables	(8,294)	85	(150)	(68)
(Increase)/decrease in related party debtors	–	31,491	–	–
(Increase)/decrease in other debtors	(177)	(754)	(502)	101
(Increase)/decrease in inventories	–	34,521	–	–
(Increase)/decrease in accrued income and prepayments	100	299	(2)	(101)
(Decrease)/increase in provisions	330	(5,040)	173	–
(Decrease)/increase in payables	(621)	(5,233)	1,090	(8,563)
(Increase)/decrease in deferred tax assets	(1,060)	(2,057)	(1,878)	1,661
Increase/(decrease) in provision for income tax	(1,567)	5,046	(2,155)	5,046
Net cash from operating activities	8,715	69,839	(10,055)	7,175

31. Financial instruments

(a) Financial risk management objectives

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated group's business.

The Group seek to minimize the effects of these risks, by using derivative financial instruments to hedge these risk exposures, where appropriate.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

(c) Foreign currency risk management

The Group is exposed to foreign currency risk on revenue, expenses and borrowings that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily British Pounds and Euro.

In respect of monetary asseys and liabilities held in currencies other than the AUD, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalance.

Unhedged outstanding balances at reporting date:

	Balance outstanding in foreign currency at 30 June 2007	Balance outstanding in AUD at 30 June 2007	Balance outstanding in foreign currency at 30 June 2006	Balance outstanding in AUD at 30 June 2006
Group				
Receivables	Euro 415,324	A$691,412	Euro 12,192	A$20,276

The company does not have unhedged outstanding foreign currency balance at 30 June 2007 (2006: Nil).

(d) Interest rate risk management

For the purposes of managing its interest rate risk, the consolidated group may enter into interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure within the consolidated group's policy. At 30 June 2007, there are no interest rate swaps in place.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Maturity profile of financial instruments

The maturity profile of financial assets and financial liabilities held by the company and the Group are detailed on the following pages:

The following table details the Group's exposure to interest rate risk as at 30 June 2007:

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates: Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non-interest bearing	Total
2007	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets										
Continuing operations										
Cash and cash equivalents	6.05%	21,676	–	–	–	–	–	–	–	21,676
Trade and other receivables	8.25%	4,600	–	–	–	–	–	–	17,159	21,759
Other financial assets – Investment in related parties		–	–	–	–	–	–	–	13,379	13,379
Others assets		–	–	–	–	–	–	–	281	281
Discontinued operations										
Cash and cash equivalents		–	–	–	–	–	–	–	–	–
Trade and other receivables		–	–	–	–	–	–	–	1,124	1,124
Others assets		–	–	–	–	–	–	–	–	–
		26,276	–	–	–	–	–	–	31,943	58,219

31. Financial instruments continued

Maturity profile of financial instruments continued

	Weighted average effective interest rate	Variable interest rate	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non-interest bearing	Total
			← Fixed maturity dates →							
2007	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities										
Continuing operations										
Trade and other payables		–	–	–	–	–	–	–	4,988	4,988
Non-interest bearing loans		–	–	–	–	–	–	–	–	–
Discontinued operations										
Trade and other payables		–	–	–	–	–	–	–	631	631
Non-interest bearing loans		–	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	5,619	5,619

The following table details the Group's exposure to interest rate risk as at 30 June 2006:

	Weighted average effective interest rate	Variable interest rate	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non-interest bearing	Total
			← Fixed maturity dates →							
2006	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets										
Continuing operations										
Cash and cash equivalents	5.59%	10,097	–	–	–	–	–	–	–	10,097
Trade and other receivables		–	–	–	–	–	–	–	9,003	9,003
Other financial assets – Investment in related parties		–	–	–	–	–	–	–	1,737	1,737
Others assets		–	–	–	–	–	–	–	344	344
Discontinued operations										
Cash and cash equivalents	5.59%	1,984	–	–	–	–	–	–	–	1,984
Trade and other receivables		–	–	–	–	–	–	–	2,038	2,038
Others assets		–	–	–	–	–	–	–	37	37
		12,081	–	–	–	–	–	–	13,159	25,240
Financial liabilities										
Continuing operations										
Trade and other payables		–	–	–	–	–	–	–	4,846	4,846
Non-interest bearing loans		–	–	–	–	–	–	–	2,675	2,675
Discontinued operations										
Trade and other payables		–	–	–	–	–	–	–	1,394	1,394
		–	–	–	–	–	–	–	8,915	8,915

31. Financial instruments continued

The following table details the company's exposure to interest rate risk as at 30 June 2007:

	Weighted average effective interest rate	Variable interest rate	← Less than 1 year	1-2 years	Fixed maturity dates 2-3 years	3-4 years	4-5 years	→ 5+ years	Non-interest bearing	Total
2007	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets										
Continuing operations										
Cash and cash equivalents	6.05%	2,294	–	–	–	–	–	–	–	2,294
Trade and other receivables		–	–	–	–	–	–	–	33,193	33,193
Other financial assets – Investment in related parties		–	–	–	–	–	–	–	11,978	11,978
Others assets		–	–	–	–	–	–	–	172	172
		2,294	–	–	–	–	–	–	45,343	47,637
Financial liabilities										
Continuing operations										
Trade and other payables		–	–	–	–	–	–	–	1,463	1,463
		–	–	–	–	–	–	–	1,463	1,463

The following table details the company's exposure to interest rate risk as at 30 June 2006:

	Weighted average effective interest rate	Variable interest rate	← Less than 1 year	1-2 years	Fixed maturity dates 2-3 years	3-4 years	4-5 years	→ 5+ years	Non-interest bearing	Total
2006	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets										
Continuing operations										
Cash and cash equivalents	5.5%	744	–	–	–	–	–	–	–	744
Trade and other receivables		–	–	–	–	–	–	–	11,594	11,594
Other financial assets – Investment in related parties		–	–	–	–	–	–	–	712	712
Others assets		–	–	–	–	–	–	–	170	170
		744	–	–	–	–	–	–	12,476	13,220
Financial liabilities										
Continuing operations										
Trade and other payables		–	–	–	–	–	–	–	373	373
		–	–	–	–	–	–	–	373	373

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. 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 group 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 group. Transactions involving derivative financial instruments are with counterparties with whom the consolidated group 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.

31. Financial instruments continued

(f) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The financial statements include holdings in unlisted shares which are measured at fair value, except for investment in subsidiaries which are carried at cost (note 11). The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

32. Share-based payments

APN Property Group Employee Share Purchase Plan (the Plan)

Shares in the company may be offered to executive 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 an interest-free 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.

Shares issued under the Plan may include conditions for vesting. The entitlement to shares under the Plan and the vesting conditions are linked to the achievement of KPI objectives. Once vested and subject to the repayment of any loan owing, the shares become unrestricted and may be dealt with as desired.

At 30 June 2007, the fair value of the share options issued under this arrangement included in equity compensation reserve was $236,545 (2006: $94,634).

The table on page 60 shows the breakdown of the option series 1–4 issued under the Plan.

Clive Appleton Share Trust

Managing Director, Clive Appleton has an entitlement to shares in the company as follows:

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 9,000,001 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.

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 2007, the 9,000,001 (2006: 8,000,001) share options are fully vested and exercisable.

At 30 June 2007, the fair value of the share options issued under this arrangement included in equity compensation reserve was $104,000 (2006: $83,200).

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 group 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.

32. Share-based payments continued

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.

There were no gift shares issued for the year ended 30 June 2007 (2006: $31,797)and accordingly, no amounts have been recognized as employee expenses and in contributed equity (2006: $31,797).

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Exercise price $	Fair value at at grant date $
(1) Issued 10 September 2004 *	10,756,349	10.09.2004	$0.31	107,563
(2) Issued 20 June 2005 *	645,000	20.06.2005	$1.00	6,450
(3) Issued 28 February 2006 *	2,000,000	28.02.2006	$1.97	663,122
(4) Issued 3 October 2006 *	440,000	03.10.2006	$2.84	210,663

(*) In accordance with the terms of the share-based arrangement, options issued vest from 30 June 2005 to 30 June 2009, upon meeting certain performance criteria.
The share options expire on the termination of the individual director and employees employment.

The weighted average fair value of the share options granted during the financial year is $210,663 (2006: $663,122). Options were priced using a Black-Scholes option pricing model. Expected volatility is based on the historical share price volatility of the Company from the date listed.

	Option series			
Inputs into the model	1	2	3	4
Grant date share price	$0.31	$1.00	$1.97	$2.84
Exercise price	$0.31	$1.00	$1.97	$2.84
Expected volatility	25%	25%	32.3%	31.3%
Option life	2 years	2 years	3 years	3 years
Dividend yield	–	–	–	–
Risk-free interest rate	5.15%	5.15%	5.63%	6.21%

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2007		2006	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	**12,616,529**	**$0.60**	13,097,460	$0.34
Granted during the financial year	**440,000**	**$2.56**	2,000,000	$1.95
Exercised during the financial year (i)	**(1,069,399)**	**$0.35**	(2,480,931)	$0.32
Balance at end of the financial year (ii)	**11,987,130**	**$0.69**	12,616,529	$0.60
Exercisable at end of the financial year	**10,767,130**	**$0.69**	8,500,001	$0.60

32. Share-based payments continued

(i) Exercised during the financial year

The following share options granted under the employee share option plan were exercised during the financial year:

Options series	Number exercised	Exercise date	Share price at exercise date $
2007			
(1) Issued 10 September 2004	1,000,000	3 October 2006	$2.90
(2) Issued 20 June 2005	25,800	28 October 2006	$3.37
(2) Issued 20 June 2005	18,319	14 November 2006	$3.17
(2) Issued 20 June 2005	25,280	31 May 2007	$3.10
2006			
(1) Issued 10 September 2004	720,837	4 August 2005	$1.40
(1) Issued 10 September 2004	1,731,622	5 June 2006	$2.35
(2) Issued 20 June 2005	9,490	18 November 2005	$1.79
(2) Issued 20 June 2005	18,982	5 June 2006	$2.35

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of $0.69 (2006: $0.60). These share options expire on the termination of the individual employee's employment.

33. Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

- Christopher Aylward (Executive Director)
- Clive Appleton (Executive Director)
- Howard Brenchley (Executive Director)
- Andrew Cruickshank (Non-executive Director)
- Michael Butler (Non-executive Director)
- John Harvey (Non-executive Director) (Appointed 23 April 2007)
- Warren Boothman (APN PG, General Manager, Corporate)
- Michael Doble (APN FM, Director, Retail Funds)
- Michael Hodgson (APN FM, Manager, Development Funds)
- Charles Raymond (APN FM, Director, Listed Funds)
- John Freemantle (APN PG, Chief Financial Officer)

Key management personnel compensation

Details of key management personnel compensation are disclosed on pages 13 to 18 of the Remuneration Report.

The aggregate compensation made to key management personnel of the company and the Group is set out below:

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits	2,967,968	3,104,895	2,061,206	1,868,774
Post-employment benefits	122,535	106,816	84,477	70,399
Other long-term benefits	11,872	–	–	–
Share-based payment	359,231	145,694	49,963	22,800
	3,461,606	3,357,405	2,195,646	1,961,973

34. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 12 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in the Remuneration Report within Directors' Report and the aggregate compensation are disclosed in note 33 to the financial statements.

ii. Loans to key management personnel

At reporting date 30 June 2007, there were no loans to key management personnel.

iii. Key management personnel equity holdings

Fully paid ordinary shares of APN Property Group Limited

2007	Balance at 30 June 2006 No.	Granted as compensation No.	Received on exercise of options No.	Disposed No.	Balance at 30 June 2007 No.	Balance held nominally No.
Directors						
Christopher Aylward	49,123,688	–	–	(4,025,000)	45,098,688	–
Clive Appleton	–	–	1,000,000	(1,000,000)	–	–
Howard Brenchley	12,618,610	–	–	(1,035,295)	11,583,315	–
Michael Butler	31,290	–	–	–	31,290	–
Andrew Cruickshank	1,536,862	–	–	–	1,536,862	–
Executives						
Warren Boothman	73,778	–	2,550	–	76,328	–
Michael Doble	308,075	–	12,750	–	320,825	–
Michael Hodgson	79,765	–	6,375	–	86,140	–
Charles Raymond	32,778	–	1,949	–	34,727	–

2006	Balance at 30 June 2005 No.	Granted as compensation No.	Received on exercise of options No.	Disposed No.	Balance at 30 June 2006 No.	Balance held nominally No.
Directors						
Christopher Aylward	49,123,688	–	–	–	49,123,688	–
Howard Brenchley	12,618,610	–	–	–	12,618,610	–
Michael Butler	31,290	–	–	–	31,290	–
Andrew Cruickshank	1,536,862	–	–	–	1,536,862	–
Executives						
Warren Boothman	72,000	454	1,324	–	73,778	–
Michael Doble	301,000	454	6,621	–	308,075	–
Michael Hodgson	76,000	454	3,311	–	79,765	–
Charles Raymond	31,000	454	1,324	–	32,778	–

34. Related party transactions continued

Share options of APN Property Group Limited

2007	Balance at 30 June 2006 No.	Granted as compen-sation No.	Exercised No.	Balance at 30 June 2007 No.	Balance vested at 30 June 2007 No.	Vested but not exerci-sable No.	Vested and exerci-sable No.	Options vested during year No.
Directors								
Clive Appleton	10,000,001	–	(1,000,000)	9,000,001	9,000,001	–	9,000,001	2,000,000
Executives								
Warren Boothman	28,676	150,000	(2,550)	176,126	101,126	–	101,126	75,000
Michael Doble	1,143,379	–	(12,750)	1,130,629	630,629	–	630,629	250,000
Michael Hodgson	71,689	–	(6,375)	65,314	65,314	–	65,314	–
Charles Raymond	1,028,676	–	(1,949)	1,026,727	526,727	–	526,727	250,000

2006	Balance at 30 June 2005 No.	Granted as compen-sation No.	Exercised No.	Balance at 30 June 2006 No.	Balance vested at 30 June 2006 No.	Vested but not exerci-sable No.	Vested and exerci-sable No.	Options vested during year No.
Directors								
Clive Appleton	10,000,001	–	–	10,000,001	8,000,001	–	8,000,001	2,000,000
Executives								
Warren Boothman	30,000	–	(1,324)	28,676	28,676	28,676	–	–
Michael Doble	150,000	1,000,000	(6,621)	1,143,379	443,379	193,379	250,000	250,000
Michael Hodgson	75,000	–	(3,311)	71,689	71,689	71,689	–	–
Charles Raymond	30,000	1,000,000	(1,324)	1,028,676	278,676	28,676	250,000	250,000

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

During the financial year, 1,023,624 options (2006: 12,580) were exercised by key management personnel at exercise price of ranging from $0.31 to $1.00 per option for 1,023,624 ordinary shares in APN Property Group Limited (2006: 12,580). No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the employee share option plan and share options granted during the 2007 and 2006 financial years are contained in notes 32 to the financial statements.

iv. Transactions with key management personnel of APN Property Group Limited

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 Alyward.

Other than the matter discussed above, there were no transactions with key management personnel and their related parties of the Group and key management personnel of the Group's parent entity for the financial year ended 30 June 2007.

(c) Transactions with other related parties

Other related parties include:

- the parent entity
- entities with joint control or significant influence over the Group
- associates
- joint ventures in which the entity is a venturer
- subsidiaries
- other related parties.

Transactions between APN Property Group Limited and its related parties

During the financial year, the following transactions occurred between the company and its other related parties:

- the Company provided loan arrangement service totalling $13,566 (2006: Nil) to APN/UK European Retail Trust

The following balances arising from transactions between the company and its other related parties are outstanding at reporting date:

- The Company provided a loan of Nil (2006: $1,034,000) to APN Funds Management Limited as Responsible Entity of

34. Related party transactions continued

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% (2006: 7.7%). Interest paid and payable amounted to $22,031 (2006: $1,963).

- The Company provided a loan of $4,600,000 (2006: Nil) to APN Funds Management Limited as Responsible Entity of Wholesale Direct Property Pool. Interest on the loan outstanding as at the end of the financial year was charged at a rate of 8.25% (2006: Nil). Interest paid and payable amounted to $523,976. (2006: Nil).
- The Company has net receivables of $8,805,359 (2006: $4,311,576) owing from its subsidiaries for amount due under the tax funding arrangement and payables of $18,945,059 (2006: 6,167,664 receivables) from its subsidiaries for normal operations funding purposes.

All amounts advanced to or payable to related parties are unsecured.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions and balances between the company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

Transactions between the Group and its related parties

During the financial year ended 30 June 2007, the following transactions occurred between the Group and its other related parties:

- APN Funds Management Limited, a controlled entity of the Company, received upfront fees of $6,758,216 (2006: $3,782,240) from APN/UKA European Retail Trust, Vienna Retail Fund, Poland Retail Fund, APN National Storage Property Trust and APN Wholesale Direct Property Pool (2006: APN Direct Property Fund, APN National Storage Property Trust, APN Property Plus Portfolio and APN Wholesale Direct Property Pool) 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, APN Direct Property Fund and APN Development Fund No.1 (2006: 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). Management fees received during the financial year were $24,468,143 (2006: $18,677,424).
- APN/UKA Management Limited and APN/UKA Management Limited No. 2 provided acquisition and loan arrangement services to APN/UKA European Retail Trust, Vienna Retail Fund and Poland Retail Fund amounting to $10,023,552 (2006: 5,546,348).
- APN Funds Management Limited received administration fees of $2,510,738 (2006: $1,239,893) 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 $1,683,153 (2006: $482,468) from APN Development Fund No. 1 and Nil (2006: 50,984) from APN Regional Property Fund.

The following balances arising from transactions between the Group and its other related parties are outstanding at reporting date:

- APN Funds Management Limited provided a loan of $180,000 (2006: $180,000) 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% (2006: 7.0%). Interest paid and payable amounted to $22,510 (2006: $910).
- APN Funds Management Limited has uncalled share capital payable to APN/UKA Management Limited and APN/UKA Management Limited No.2 of $1,239 and $1,033 respectively.
- Management fees receivable amounted to $8,564,308 (2006: 6,078,996) and other receivables due to the manager from the funds it manages amounted to Nil (2006: $541,579) at financial year end.

All amounts advanced to or payable to related parties are unsecured.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

34. Related party transactions continued

Investments

At 30 June 2007, the Company and its controlled entities, held investments in the following funds, which it manages:

	Units	Distributions received/ receivable	Units	Distributions received/ receivable
	2007 No.	2007 $	2006 No.	2006 $
APN Property for Income Fund	92	–	86	20
APN Property for Income Fund No. 2	57	–	53	8
APN International Property for Income Fund	100	8	100	8
APN Property Plus Portfolio Fund	100	9	100	9
APN National Storage Property Trust	100	9	100	9
APN/UKA European Retail Trust	660,000	57,156	660,000	39,402
APN Direct Property Fund	523,013	45,188	523,013	24,582
APN Development Fund No. 1	1,267,045	149,009	712,500	–
APN Europe Property Fund	10,272,900	–	–	–

(d) Parent entities

The parent entity in the Group is APN Property Group Limited. APN Property Group Limited is incorporated in Australia.

APN Funds Management (UK) Limited, a controlled entity of the Company, received upfront fees of $2,058,431 (2006: Nil) from APN/UKA European Retail trust, Vienna Retail Fund and Poland Retail Fund for the provision of property acquisition and loan arrangement services.

APN Funds Management (UK) Limited also receives management fees for managing APN/UKA European Retail Trust. Management fees received during the financial year were $2,978,642 (2006: Nil).

35. Remuneration of auditors

	Consolidated		The Company	
	2007 $	2006 $	2007 $	2006 $
Auditor of the parent entity				
Audit or review of the financial report	179,934	213,396	150,450	151,000
Information Memorandum independent assurance report (i)	16,400	14,000	16,400	–
Assistance with Risk Management and Control Framework (ii)	20,230	–	20,230	–
Tax advice (iii)	29,570	–	29,570	–
Accounting advice (iv)	5,637	22,500	5,637	–
	251,771	249,896	222,287	151,000

The auditor of APN Property Group Limited for financial year ended 30 June 2007 and 30 June 2006 are Deloitte Touche Tohmatsu and KPMG Australia, respectively.

(i) Assistance with documenting the controls within APN in the Risk Register.

(ii) Independent assurance report on the accounting policies disclosed in the Information Memorandum and Constitution of APN Development Fund No. 2. Service was provided to APN Funds Management Limited in its capacity as responsible entity of registered schemes

(iii) Advice regarding CGT implications for trust distributions and tax implications of selling the trust versus the property in the trust. Service was provided to APN Funds Management Limited in its capacity as responsible entity of registered schemes.

(iv) Accounting advice in respect of share based payments. This service was provided prior to the appointment as auditor.

36. Subsequent events

The directors have declared a final dividend of 5.5 cents per share for the year ended 30 June 2007. The dividend will be fully franked and paid on 12 October 2007 to all investors registered on 25 September 2007.

In July 2007, the company committed to invest $5 million into the APN Development Fund No 2 (APNDF2), an emerging area of APN's business in the creation of property development funds for wholesale investors. APN will earn income from the management of the fund and the development projects and from its investment in the fund which ensures it aligns its interest with its co-investors.

In August 2007, APN successfully completed the acquisition of UK Australasia Limited, its joint venture partner in the management of the listed APN/UKA European Retail Trust. APN has paid $12.4 million for UKA's 50% share of the base management fees earned. APN and UKA will continue to share property acquisition and debt arrangement fees and all fees earned for the management of all unlisted European retail funds.

Other than the matters discussed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 30 June 2007, that has affected or may affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in subsequent years, which has not been covered in this report.

Australian stock exchange information

Additional stock exchange information as at 4 September 2007

Number of holders of equity securities

Ordinary share capital

129,268,233 fully paid ordinary shares are held by 1,798 individual shareholders.

All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities

	No. of equity security holders	No. of fully paid ordinary shares
1 – 1,000	76	51,771
1,001 – 5,000	609	2,083,654
5,001 – 10,000	478	4,284,189
10,001 – 100,000	590	15,103,257
100,001 and over	45	107,745,362
	1,798	129,268,233

The number of security investors holding less than a marketable parcel of 161 securities ($3.120 on 3/9/2007) is 2 and they hold 125 securities.

Voting Rights

Ordinary Shares – Refer to note 21 to the financial statements.

Options – Refer to note 32 to the financial statements.

Substantial shareholders

The number of units held by substatial shareholders and their associates, as disclosed in substantial shareholding notices given to the Company, are set out below:

Ordinary shareholders	Fully paid ordinary shares Number
Holus Nominees Pty Limited	45,098,688
Holvia Investments Pty Ltd	11,583,315
Melbourne Light Pty Ltd	10,000,002
APN Property Group Nominees Pty Limited	9,000,001
	75,682,006

Twenty largest holders of quoted equity securities

	Fully paid ordinary shares	
Ordinary shareholders	Number	Percentage
Holus Nominees Pty Limited	45,098,688	34.89%
Holvia Investments Pty Ltd	11,583,315	8.96%
Melbourne Light Pty Ltd	10,000,002	7.74%
APN Property Group Nominees Pty Limited	9,000,001	6.96%
National Nominees Limited	4,158,074	3.22%
JP Morgan Nominees Australia Limited	3,437,616	2.66%
APN Funds Management <APN PG ESP Account>	3,040,000	2.35%
Cogent Nominees Pty Limited	2,846,584	2.20%
UBS Wealth Management Australia Nominees Pty Ltd	2,698,175	2.09%
UBS Nominees Pty Ltd	2,693,559	2.08%
ANZ Nominees Limited	1,708,028	1.32%
Invia Custodian Pty Limited	1,536,862	1.19%
RBC Dexia Investor Services <GSJBW Account>	1,429,367	1.11%
Cogent Nominees Pty Limited <SMP Accounts>	1,084,193	0.84%
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST Account>	900,825	0.70%
Grahger Capital Investment Pty Ltd	600,000	0.46%
Perpetual Trustees Consolidated Limited <C_L A/C>	565,655	0.44%
JDV Limited	500,000	0.39%
Blackrock Investment Management	428,954	0.33%
Grahger Capital Securities Pty Ltd	420,723	0.33%
	103,730,621	80.24%

On-market buy-back

There is no current on-market buy-back.

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Corporate Directory

Registered office

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

Principal administration 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
John Harvey, Independent Non-executive Director

Company Secretary

Peter Nicholson

Auditor

Deloitte Touche Tohmatsu
180 Lonsdale 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 #12268

APN | Property Group Limited