A SPECIALIST REAL ESTATE INVESTMENT MANAGER

APN | Property Group

PROPERTY FOR INCOME

ANNUAL REPORT 2019

Contents

APN Property Group Limited
and its Controlled Entities
ABN 30 109 846 068

A specialist real estate investment manager

Established in 1996, APN Property Group Limited is a specialist real estate investment manager with operations based in Melbourne. We are an external fund manager that strategically co-invests in funds alongside our investors.

Focused exclusively on real estate funds management and with a core philosophy of "property for income", we seek to establish and actively manage a suite of real estate funds to provide annuity style income and wealth creation opportunities for retail and institutional investors.

At the core of our business is our commitment to investment performance and outstanding service. We deliver this through our highly disciplined investment approach, our deep understanding of commercial real estate and our dedicated in-house customer service and registry team.

HIGHLIGHTS

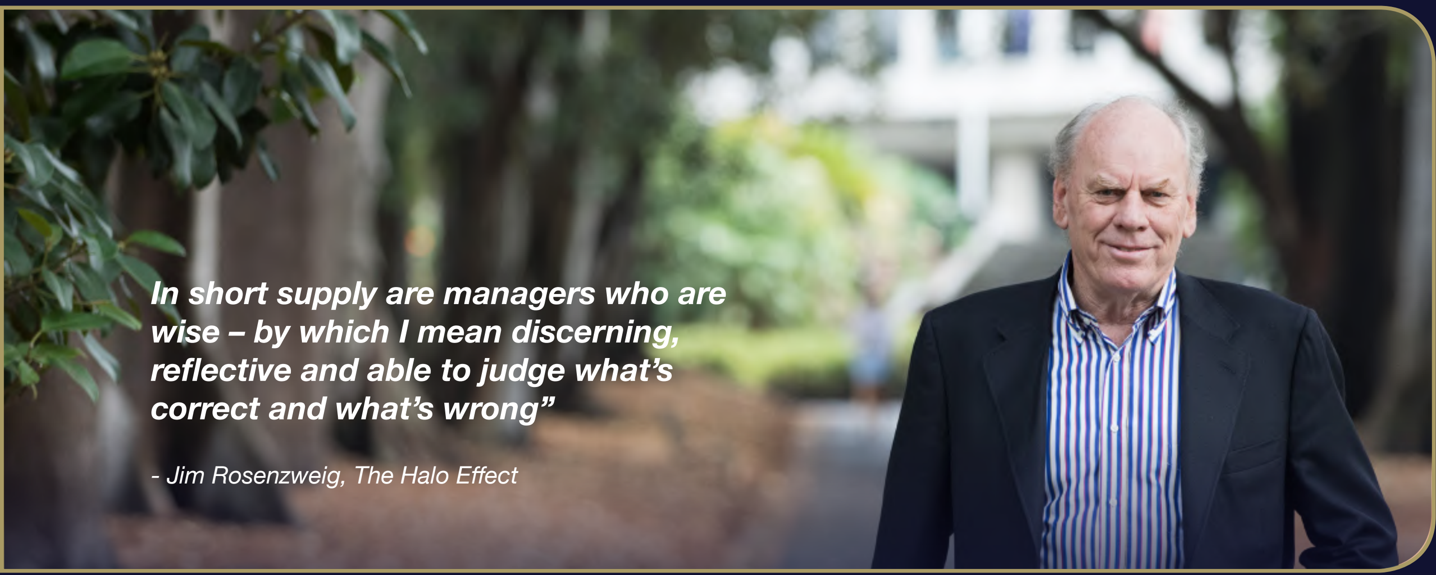
STATUTORY PROFIT AFTER TAX	OPERATING EARNINGS AFTER TAX[1]	OPERATING EARNINGS PER SHARE
$14.5 MILLION	$9.2 MILLION	2.94 CENTS
DIVIDEND PER SHARE	**TOTAL SHAREHOLDER RETURN[2]**	**NET TANGIBLE ASSETS**
2.75 CENTS	17.0%	$126 MILLION
FUNDS UNDER MANAGEMENT	**TRACK RECORD**	
$2.9 BILLION	23 YEARS	12 FUNDS

1 Operating earnings is an unaudited after tax metric used by management as the key performance measurement of underlying performance of the Group. It adjusts statutory profit for certain non-operating items recorded in the income statement including minority interests, discontinued operations, business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

2 Per annum as at 30 June 2019. Includes reinvestment of dividends at market price on dividend payment date and divisor adjustment for standardised calculation where required.

PROPERTY FOR INCOME

LETTER FROM THE CHAIRMAN



Dear Fellow Shareholder,

Tim Slattery, in his CEO report, covers the important detail of the year gone by. It has been an excellent year for APN and I add my congratulations to Tim, the Board, the Staff and all our stakeholders.

I add my extended personal thanks for the contributions made by Tony Young and Michael Groth. Both are leaving us after long and fruitful associations. We wish them well.

The above quote, which I am repeating, really does reflect our own corporate aspirations. We want to stand apart in the right way. APN has one overarching rule - to put our investors' interests first. Consequently the golden rule of not losing money is a given.

At this juncture we have called the markets well, repairing our Balance Sheet, returning excess capital and growing our earnings per share. At a time where the chase for yield is on, our offerings remain well positioned as far as their risk profile and durability.

The Chinese exit from direct property markets, The Hayne Commission, the November sell off in equity markets and the repricing in bond markets have counterintuitively reduced risk. Now, we see few headwinds to our Property For Income approach. Total return expectations are now in the 7-9% range depending on risk profile.

Pursuit of ~5% running yields necessitates paying close attention to the quality of that income. An environment of falling interest rates and abundant liquidity has benefited asset owners but the shadow is likely oversupply through overzealous demand expectations, a dangerous cocktail. Money will be lost and we are seeing that daily in the press, obvious in the residential, retail and development sectors.

Property for Income could be recast, in this environment to, "Property for Quality Income". Our Property Securities Funds, our Listed Funds and our Direct Investments will continue to put their investors first. US 10 year Treasury Bond yields approaching 4% crashed the markets so we will be seeking minimum total returns that should not be impacted by a sudden return to this level. We believe Property Income is the safest of risk assets. The two strategies we will pursue are first acquiring quality medium to longer term income streams and second acquiring value.

APN has the skill to deliver on both strategies and further grow our funds under management strongly through prudent and ethical investment.

I have continued to acquire shares in a company I understand.

Yours sincerely,

Chris Aylward
Chairman
APN Property Group

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Fellow Shareholder,

I'm very pleased to present APN Property Group Limited's Annual Report for financial year 2019.

Funds Under Management, Profit and Dividends Increased

Our team has delivered a year of strong business and profits growth. Our key profitability measure of Operating Earnings[1] after tax was $9.2 million in FY2019, an increase of 12% over the prior year. Statutory profit, which includes the unrealised profits on investments in our managed funds was $14.5 million, a 7% increase. On a per share basis, Operating Earnings increased 12% over the year to 2.94 cents and statutory profit was 4.67 cents.

This result is the sixth successive year of recurring income growth.

Recurring income (predominantly annual management fees and distributions from our co-investments) represented approximately 99% of our total income for FY2019.

APN's funds under management increased $127 million or 5% to $2.9 billion and the company's balance sheet remains strongly positioned with cash holdings of $15.7 million and net tangible assets per share of 40.2 cents, an increase of 7%.

On the strength of this result and the company's position the Board has decided to increase our final dividend by 50% to 1.50 cents, for a total for the year of 2.75 cents per share.

The Market and the Ongoing Need for Income from Property

Today's current market environment with the Reserve Bank of Australia's cash interest rate at 1.00% per annum and similarly the 10 Year Australian Commonwealth Government Bond yield delivering investors less than 1.00% highlights investors' need for reliable cash income streams. APN's 'Property for Income' products are exceptionally well positioned to meet this need. We increasingly see investors, whether institutional or retail, uncertain on the length and amount of funding required to meet retirement needs and as a result focused on capital preservation and 'living off one's income'. A high quality commercial property portfolio financed with a sensible level of debt generating a cash income yield of 5-7% offers an attractive proposition for these investors. We therefore continue to believe the company is well positioned to continue to grow.

Funds and Performance

At an operational level, our funds have continued to deliver strong income-focused returns as a result of our active management approach. The APN AREIT Fund, APN's largest single fund which is a benchmark unaware fund which aims to deliver 110% of the S&P/ASX 200 AREIT index's distribution yield delivered a 10.2% return for the year. This Fund marked its 10 year anniversary from its inception in January 2009 and has delivered annualised returns since this time of 14.0%.

In 2011, we launched an equivalent, income-focused listed property fund focused on Singapore, Hong Kong and Japan. Over half of the world's population lives in the Asian region and 2018 analysis from the World Data Lab and The Brookings Institute concluded that 9 of 10 of the next 1 billion members of the world's middle class would be based in Asia. Long term economic growth has been a strong positive indicator of real estate investment performance and the APN Asian REIT Fund has delivered 28.9% over the year to June 2019 and 15.5% per annum since its inception in July 2011. Both of these funds deliver distribution yields in excess of 5% pa (at June 2019) and pay distributions monthly.

During the year we renamed each of our listed direct property funds to ensure that the connection to APN was apparent and that the funds had full benefit from the connection with APN as manager and a significant co-investor.

APN Industria REIT (ASX: ADI) was listed in 2013 with $378 million of office and industrial assets and since that time its portfolio has been built to $739 million in value. Our team had a particularly active year on Industria's leasing program, successfully completing 53 leasing transactions with tenant retention of 87%. These results demonstrate APN's hands on approach to managing our real estate and a high level of engagement with the businesses which occupy our properties. Industria acquired four properties during the year and raised $50 million in new equity in a very well supported transaction.

APN Convenience Retail REIT (ASX: AQR) delivered a total return for the year of 23.7% and delivered earnings (Funds From Operations) of $17.0 million, 4.3% ahead of its 2017 Initial Public Offering Forecast. Convenience Retail REIT's portfolio increased in value over the year by 5.3% to $358 million. The fund continues to offer investors a long 11.7 year average lease term and a portfolio leased to leading international and Australian non-discretionary retailers.

1 Operating Earnings is an unaudited performance metric used by the Group as the key measurement of it's underlying performance. It adjusts statutory profit for certain non-operating items recorded in the income statement including discontinued operations, business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

In our direct property activities we successfully completed the APN Steller Development Fund with an expected total cash return of approximately 38% and equity IRR of 17%. We undertook detailed due diligence of this opportunity originally which included our assessment that the investment could withstand a 30% fall in the relevant Melbourne residential market before investors' capital would be at risk. We are pleased with the outcome for our investors which demonstrates our direct property management capabilities.

During the year we successfully established the $24 million APN Nowra Property Fund which offered investors a 12 year weighted average lease expiry backed by a Woolworths Limited guarantee and a 7.80% pa initial equity distribution yield.

In March 2019 we completed the recapitalisation of the APN Regional Property Fund which owns two A-Grade office buildings in Newcastle, NSW independently valued at $52 million. Our assessment of the opportunity was that it represented attractive value at a rate of $5,493 per square metre of lettable area compared to other A-Grade office markets. Recently the sale of a property in the immediate area which has a longer lease term and is a new building but operates under a strata title was completed at a rate of $8,000 per square metre of lettable area (cap rate of 6.25%). We believe this fund is well positioned to continue to deliver strong returns for investors.

Growth Opportunities and Outlook

In the period our team was very active in the analysis and origination of new direct property opportunities while maintaining a disciplined approach to our acquisition criteria. Consistent with having a long term view we will continue to be patient in the identification of new opportunities however we are increasingly confident that the number and availability of attractive acquisition opportunities will increase over the next year.

We are currently working on new funds in both the Securities and Direct property parts of the business which we expect to introduce to investors over FY2020.

We are particularly optimistic on the company's future prospects. We acknowledge the challenges confronting the Australian and global economies and the uncertainty faced by financial market investors regarding valuations of risk assets, interest rates and international trade and other geo-political concerns. However, as income focused property investors backed by the experience of investing across several different property cycles we remain convinced of the relevance of our investment products and their ability to continue to deliver strong risk adjusted returns.

Dividend Guidance

The Board has declared a final dividend of 1.50 cents per share which will be 45% franked, bring the total dividend for the year to 2.75 cents per share (70% franked).

The Board believes that the dividend is sustainable at this level for the foreseeable future (based on current market conditions). As part of this, the Board expects to pay a dividend for the full year of 2.75 cents per share which will be partially franked.

The Board has determined to issue dividend guidance exclusively in place of its previous practice of issuing operating earnings guidance having reviewed market practice and what it believes will be most useful for investors.

Stapling Proposal

As outlined in the October 2018 explanatory materials, the Board believes it is in the company's interests to convert itself into a stapled structure. At the 2018 APD Annual General Meeting shareholders approved the establishment of a stapled structure by 30 June 2019 subject to the satisfaction of certain conditions including the receipt of an appropriate class ruling from the Australian Taxation Office. In May 2019 APN advised that it would not receive the necessary ruling by 30 June 2019 and therefore the stapling proposal would not be implemented by the shareholder approval sunset date of 30 June 2019.

The APD Board intends to continue to work towards the restructure of APD into a stapled group. This will require further approval from shareholders prior to implementation, as well as ASIC relief or approval. Subject to receiving any necessary relief and approvals, the Board's objective is for the restructuring to occur by 31 December 2019.

Note of Thanks

I'd like to take this opportunity to thank our team, investors and business partners and fellow directors for their contributions to APN's FY2019 results. In particular, after 13 years Michael Groth our CFO will be departing towards the end of this calendar year to pursue a new opportunity. I'd like to thank Michael for his excellent service to the Company over this time. As announced, we are delighted to promote Joseph De Rango to become our next CFO, effective 1 September 2019. In addition, Tony Young has advised of his resignation from the board following the completion of our FY2019 results due to an increase of external commitments. I'd also like to thank Tony for his contribution to the Company.

On behalf of our Board and team I would also like to thank all of our shareholders for your support over the year. I believe APN is in an excellent position to continue to deliver great results for our investors and our shareholders, with an excellent team, good access to a range of capital sources, a highly relevant product set with attractive new growth opportunities and outstanding alignment and governance.

We are all looking forward to the year ahead and sharing further success with you.

Yours sincerely

Tim Slattery
Chief Executive Officer
APN Property Group

DIRECTORS' REPORT

The directors of APN Property Group Limited ('APN' or 'the Company) are pleased to present their report of the APN Property Group (APN Group or the Group) for the financial year ended 30 June 2019.

Information about the Directors

Directors of APN Property Group Limited at the date of this Report.

DIRECTORS' REPORT

Christopher Aylward

Non-Executive Chairman

- Director since 1996.

Chris commenced his career in real estate in 1972. He has significant experience in the management, marketing, construction and development of residential and commercial real estate.

Prior to his current role, Chris was a principal of Richard Ellis, now CBRE, and responsible for City Sales and Leasing. He joined the Grollo Group as Development Manager and personal assistant to Bruno Grollo, in 1984. In 1987 he became a founding director in Grocon Pty Ltd and a substantial shareholder, retiring in 1994 and from the board in 1996. He founded Kooyong Wines and APN in 1996 and maintains an interest in the wine industry. He has been Chairman of APN since inception and remains its largest shareholder.

Clive Appleton

BEc, MBA, AMP (Harvard), GradDip (Mktg), FAICD

Independent Director

- Director since 2004.

Clive joined APN as managing director in April 2004 following a successful career in property and funds management, having worked for Australia's leading retail property investment, management and development groups. Clive was instrumental in floating APN in 2005 and was responsible for managing APN's Private Funds division for five years. In 2013 he became a non-executive director and an independent director in 2016.

Prior to joining the group, Clive was the Managing Director of the Gandel Group (1997-2004), which included the iconic Chadstone Shopping Centre, where he was involved in the development of $1 billion worth of property as well as the acquisition and redevelopment of the Myer Brisbane Centre. Between 1990 and 1997 Clive was managing director of Centro Properties Limited (later Federation Centres).

Clive is Deputy Chairman of the Gandel Group, Chairman of Aspen Group (since 2012), Director of Perth Airports Pty Ltd and Perth Airport Development Group Pty Ltd (since 2014) and Director of Vicinity Limited and Vicinity Centres RE Ltd (since August 2018).

Howard Brenchley

BEc

Independent Director

- Director since 1998.
- Independent Director since March 2018.

Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector.

Howard joined the APN Group in 1998 and was responsible for establishing the APN Funds Management Limited (APN FM) business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN AREIT Fund and the APN Property for Income Fund, both market leading property securities funds in Australia.

Prior to joining the APN Group, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property fund sector.

Howard is also a director of APN FM (since 1998), National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).

Timothy Slattery

BSc, LLB (Hons), MBA (London Business School

Managing Director, Chief Executive Officer

- Director since 2014.

Tim has 16 years' experience across real estate investment management, investment banking with Goldman Sachs and corporate law with Herbert Smith Freehills including 9 years with APN.

Tim has worked on mergers, acquisitions and financing transactions worth A$8 billion within Australia and internationally including a number of significant commercial real estate transactions across, retail, office, industrial and healthcare including in recent years the listing on ASX of APN Industria REIT and APN Convenience Retail REIT with over A$800 million in assets.

He has led both private and public capital raising projects for real estate investments and successfully completed asset acquisitions, sales and asset management projects and the launch of new investment funds.

Tim leads APN's team and is responsible for setting and implementing APN's strategy and growth objectives, and the investment performance of APN's investment products and the company itself.

Anthony (Tony) Young

Independent Director

- Director since December 2015 (to resign with effect from 30 August 2019).

Tony is a professional investor with a significant investment in APN as well as a number of other real estate investments.

Tony is the co-owner of Timebase Pty Limited, an Australian online law library/legal database and other services provider; and co-founder of Aspect Huntley (Australia's leading internet equity research company and publisher of Huntleys Your Money Weekly and IFA) which was sold to Morningstar in 2006.

Tony qualified as a Chartered Accountant in 1980 with Pricewaterhouse. In the 1980s he qualified as a member of Securities Institute of Australia and the Australian Institute of Bankers. His early career as an analyst included time at Westpac, Macquarie Bank, James Capel Australia (Head of Equity Capital Markets), First Pacific Stockbrokers (founding shareholder/director) and Credit Suisse First Boston (Head of Research).

He is director of a number of private companies involved in investment and research industries and is also an active counsellor with Lifeline Australia.

Chantal Churchill

BSc(Psych), DipHRM, GIA(Cert)

Company Secretary and Head of Risk and Compliance

- Company Secretary since December 2016.

Chantal is the Company Secretary and Head of Risk and Compliance for the APN Group. Chantal is responsible for the company secretarial, governance, risk management and compliance functions.

Chantal has over 15 years' professional experience in governance, risk and compliance. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

Principal activities

APN is a Melbourne based specialist Australian real estate investment manager. APN seeks to establish and actively manage a suite of real estate funds, consistent with its “property for income” philosophy, to provide annuity style income streams and wealth creation opportunities for retail and institutional investors. Integral to this strategy is investing alongside our investors via strategic co-investment stakes in funds the Group manages.

During the financial year ended 30 June 2019 APN operated four business divisions:

- Real Estate Securities;
- APN Industria REIT;
- APN Convenience Retail REIT; and
- Direct Funds

Real Estate Securities provides actively managed ‘income focused’ funds with exposure to well diversified portfolios of listed Australian and Asian REITs and unlisted property funds. Targeted at investors seeking stable superannuation, retirement and investment income, the funds are distributed via independent financial planner networks, major financial institutions (via investment platforms/wraps) and directly to individual investors.

APN Industria REIT (ASX Code: ADI) is an ASX listed fund that owns interests in office and industrial properties that provide functional and affordable workspaces for businesses located predominately on Australia’s eastern seaboard. By seeking to provide its tenants with modern, cost effective and practical spaces, the fund aims to deliver sustainable income and capital growth prospects for its investors over the long term.

APN Convenience Retail REIT (ASX Code: AQR) is an ASX listed fund that owns a portfolio of 70 convenience retail assets located across Australia with a skew towards the eastern seaboard. The portfolio is leased to high-quality tenants on predominately long-term leases, providing investors with sustainable and stable income with the potential for both income and capital growth through annual rental increases over the long term.

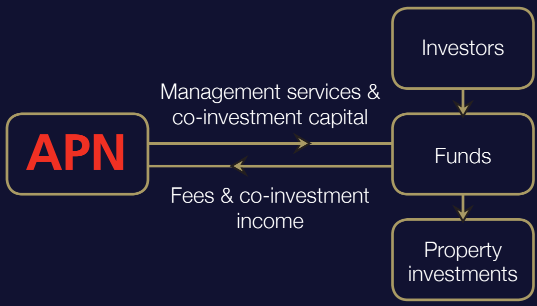
Direct Funds comprise predominately of fixed term unlisted direct property syndicates. Generally established as single purpose, single asset or single asset class funds, investors are provided with specific opportunities to access commercial property returns that may not ordinarily be available to investors.

Changes in state of affairs

Except as disclosed below, there was no other significant change in the state of affairs of the Group during the financial year.

Our Strategy

Business model



Competitive advantages

- Specialist Expertise
- Track Record
- Governance
- Co-investment

Objective to build shareholder value

Increase Scale

- Grow FUM through delivering for our clients
- Larger / more profitable funds
- Leverage efficiencies (e.g. Distribution team)

Manage Costs

- Measured investment in growth (e.g. Asia)
- Disciplined overheads

Outcome

- Revenue growth translates to bottom line
- Higher profit margins, EPS growth

Review of Results and Operations

The Group reported a net profit after tax of $14.5 million for the year ended 30 June 2019, an increase of 7.1% compared to FY18. Statutory earnings per share (diluted) were 4.67 cents compared to 4.39 cents in the prior comparative period (pcp). Operating earnings after tax increased $1.0 million to $9.2 million, or 2.94 cents per share (cps), up 11.8% on the pcp of 2.63 cps. Total dividends declared in relation to FY19 increased 0.50 cps to 2.75 cps, partially franked.

A detailed analysis of the results for the year is as follows:

	FY 2019 $'000	FY 2018 $'000
Fund management fees	15,038	14,195
Performance and transaction fees	374	670
Asset and project management fees	269	127
Registry and other fees	2,289	2,215
Total net funds management income	17,970	17,207
Co-investment income	7,985	6,780
Rental and other property related income	640	1,649
Total net income	26,595	25,636
Employment costs	(10,345)	(10,498)
Occupancy costs	(678)	(682)
Sales & Marketing costs	(710)	(761)
Other costs	(2,051)	(2,119)
Depreciation & amortisation	(141)	(204)
Finance income / (expenses)	(88)	(465)
Operating earnings before tax	12,582	10,907
Income tax expense	(3,350)	(2,696)
Operating earnings after tax and MI[1]	9,232	8,211
Other non-operating items, including income tax	5,301	5,354
Statutory profit after tax	14,533	13,565

1 Operating Earnings is an unaudited performance metric used by the Group as the key measurement of underlying performance. It adjusts statutory profit for certain non-operating items recorded in the income statement including discontinued operations, business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

Funds under Management (FUM) increased 4.5% or $0.1 billion to $2.9 billion at 30 June 2019, primarily due to property acquisitions made by APN Industria REIT and APN Convenience Retail REIT.

Total net funds management income increased by 4.4% or $0.8 million to $18.0 million as the scale benefits of the Group's management platform further emerged. This result reflects increased recurring funds management and ancillary asset management fees, higher interest income and operating cost reductions of 2.4% (from $14.3 million to $13.9 million), primarily the result of lower employment costs (share based incentive schemes) and cost control across other expenditure items.

Co-investment income increased 18% or $1.2 million to $8.0 million in FY19 reflecting increased holdings in, and higher distributions paid from, APN Industria REIT and APN Convenience Retail REIT, together with the $1.0 million profit distribution received from APN Steller Development Fund. Rent and other property related income reduced by $1.0 million to $0.6 million reflecting the successful syndication of APN's Nowra property in November 2018, which also resulted in lower financing costs in the year.

Non-operating activities

Other non-operating items (net of tax) of $5.3 million were recognised in the current year, comprising favourable mark-to-market movements in the Group's co-investments in APN Industria REIT of $4.5 million and APN Convenience Retail REIT of $2.8 million, offset by a $1.0 million loss on syndication of APN's Nowra property (to establish the APN Nowra Property Fund) and business development costs associated with discontinued projects and APN's stapling proposal totalling $0.6 million.

Balance sheet

The balance sheet of the Group remains strong. Net Tangible Assets increased 6.6% to 40.2 cents per share (cps) and available cash and cash equivalents at balance date were $15.0 million. As at 30 June 2019 net capital deployed to co-investing activities totalled $121.5 million or 38.7 cps, incorporating limited recourse borrowings of $6.0m and a $11.4 million investment holding in the APN Regional Property Fund.

APN Property Group products and customers

Specialist property expertise in four key areas

APN Property Group
$2.9b

REAL ESTATE SECURITIES
$1,684m
FUM

APN INDUSTRIA REIT
$744m
FUM

APN CONVENIENCE RETAIL REIT
$359m
FUM

DIRECT PROPERTY
$142m
FUM

Real Estate Securities (RES)

Real Estate Securities (RES) division offers products for retail and institutional investors seeking exposure to active, income focused, management strategies via listed (Australia and Asia) and unlisted (Australia) REITs. Targeted for independent financial advisor networks, major financial institutions and independent investment platforms and wraps, broker networks (through the ASX mFund platform) and self-directed investors, these products are distributed across the Australian and New Zealand markets.

The RES division reported FUM of $1.7 billion at 30 June 2019, an increase of $16 million or 1.0% compared to the prior year, comprising favourable mark to market movements of $80 million, following a second half yield-based market rally, offset by net outflows of $64 million.

The APN Asian REIT Fund continued to build momentum, with FUM increasing by 88% over the year to $45 million. Additional independent research ratings were secured during the year and the fund was added to BT's investment platforms, a further endorsement of its growing position in the market. Importantly the performance of the Fund remains strong, delivering investors an annual total return of 28.9% to June 2019 and 15.5% per annum since its July 2011 inception.

The APN AREIT Fund continued to deliver strong income based investment performance from its benchmark unaware strategy of investing in the listed property sector to deliver regular monthly distribution income. The Fund's inflows for the year have been negatively affected by distribution channel challenges resulting from the Hayne Royal Commission as well as some investors adopting an index-based investment approach or seeking out a total return focused approach (over an actively managed income focused approach). Against the market backdrop with both the Reserve Bank of Australia's cash rate and the Australian 10 year Commonwealth Government Bond yielding 1.00% pa or less, the fund remains well placed in this low interest rate environment, delivering investors a 5.90% pa property backed monthly income yield.

Priorities for FY20 are focused on delivering 'true to label' investment performance – consistent and relatively high levels of income with some capital growth and lower than market volatility. Opportunities to enhance existing, and establish new, distribution relationships and markets, particularly with Independent Financial Advisors and investment platforms / wraps, that leverage our existing product suite, capabilities and resources are the priority.

Highlights

FUNDS UNDER MANAGEMENT

$1.7b

APN Asian REIT Fund

INCREASED 88% TO

$45m

DIRECTORS' REPORT

APN Industria REIT (ADI)

APN Industria REIT (ASX: ADI) is an ASX listed real estate investment trust owning industrial and office properties that provide functional and affordable workspaces for businesses. The property portfolio is located predominately across the eastern seaboard states and is managed with a focus on providing long term sustainable income and capital growth prospects for investors. APN is a major investor in APN Industria REIT with a total holding now valued at $83 million.

ADI's FUM increased 12% to $744 million at 30 June 2019 following an active year of property acquisitions across the property portfolio. The seven industrial properties acquired during the year for $65 million were financed via a strongly supported $50 million institutional placement and retail investor securities purchase plan and additional debt facilities.

53 leasing transactions, a record number, were completed during the year, representing 13,700 square metres, helping to support and increase portfolio occupancy to 97%. Approximately 87% of expiring tenants either renewed or expanded their existing tenancies, reinforcing the benefits of Managements pro-active tenant engagement focus. At year end, the portfolio's weighted average lease expiry was 6.1 years and ADI's Net Tangible Assets (NTA) had increased to $2.71 per security.

APN Industria REIT's conservative and strong balance sheet and attractive cost of capital provides the capacity to strategically pursue acquisition opportunities and continue to deliver value and income enhancing property initiatives. Tenant engagement and amenity improvements to deliver innovative and simple solutions remain Management's core focus, ensuring the Fund is the first choice landlord for new and renewing tenants.

Highlights

FUNDS UNDER MANAGEMENT

$744m

▲ 12%

LEASING COMPLETED

~13,700sqm

ACROSS 53 LEASING TRANSACTIONS

ACQUISITIONS TOTALLING

$65m

ACROSS 7 PROPERTIES

FUNDS FROM OPERATIONS (FFO) PER SECURITY GROWTH OF

3.8%

APN Convenience Retail REIT (AQR)

APN Convenience Retail REIT (ASX: AQR) owns 70 convenience retail assets leased to high quality tenants on long term leases. Its transparent and sustainable property backed income streams offer investors income transparency and potential for both income and capital growth over time. As at 30 June 2019, APN is APN Convenience Retail REIT's largest investor, owning a stake valued at $30.0 million.

FUM totalled $359 million at 30 June 2019, following the acquisition of Puma Mt Larcom, QLD for $7.3 million and portfolio revaluation gains of $10.6 million arising from contracted rent increases across the portfolio.

Earnings (Funds From Operations) were $17.0 million, or 21.5 cents per security, representing an increase of 6.4% on FY18 annualised. This increase was primarily driven by a 9.3% increase in net property income due to 2.7% like-for-like property rental growth and a full year's contribution from three FY18 earnings accretive acquisitions and the August 18 accretive acquisition of Puma Mount Larcom.

Occupancy was maintained at 100%, with a weighted average lease expiry of 11.7 years. 79% of AQR's income benefits from fixed annual increases of 3% or more, with the balance of the portfolio subject to CPI escalations, providing a strong growth profile in the current low inflation environment.

FY20 activities will focus on active capital and portfolio management initiatives, including pursuing accretive acquisition opportunities to increase and diversify the property portfolio to create long term sustainable earnings growth and value for investors.

Highlights

FUNDS UNDER MANAGEMENT

$359m

▲ 5%

ACQUIRED PUMA MT LARCOM FOR

$7.3m

FFO PER SECURITY UP

6.4%

OVER FY18 ANNUALISED

OCCUPANCY

100%

WITH WALE AT 11.7 YEARS

Direct Funds (Direct)

APN's direct property funds division comprises predominantly fixed term unlisted direct property syndicates focused on specific opportunities to access direct property returns not generally available to individual investors. APN tailors' products to suit specific investor risk return profiles across retail, sophisticated / high net wealth and institutional clients.

FUM increased $15 million to $142 million for the year and highlights included the successful launch of the $24 million APN Nowra Property Fund, the recapitalisation for a further 5 year term of the $54 million APN Regional Property Fund and the completion of the final Steller residential projects, delivering APN Steller Development Fund investors an internal rate of return of approximately 17% per annum.

The direct property team remains an active participant in the commercial property market, evaluating over $2.0 billion in opportunities across ADI, AQR and Direct investment mandate criteria, submitting offers on approximately 62% of these and ultimately acquiring 8 properties for ADI and AQR.

Efforts in FY20 will continue on seeking commercial property opportunities with an appropriate risk and return profile sought by our investors to establish new direct property syndicates. Active property management and leasing initiatives will remain a top priority for the existing direct property funds.

Highlights

FUNDS UNDER MANAGEMENT

$142m

SUCCESSFUL LAUNCH OF

APN Nowra Property Fund

RECAPITALISATION COMPLETED

APN Regional Property Fund

ALL STELLER
PROJECTS COMPLETED

Stapling

As outlined in the October 2018 explanatory materials, the Board believes it is in the company's interests to convert itself into a stapled structure. At the 2018 APD Annual General Meeting, shareholders approved the establishment of a stapled structure by 30 June 2019 subject to the satisfaction of certain conditions including the receipt of an appropriate class ruling from the Australian Taxation Office. In May 2019 APN advised that it would not receive the necessary ruling by 30 June 2019 and therefore the stapling proposal would not be implemented by the shareholder approval sunset date of 30 June 2019.

The APD Board intends to continue to work towards the restructure of APD into a stapled group. This will require further approval from shareholders prior to implementation, as well as ASIC relief or approval. Subject to receiving any necessary relief and approvals, the Board's objective is for the restructuring to occur by 31 December 2019.

Outlook

APN is continuing its focus on generating strong risk-adjusted returns for the investors across the Group's funds, and in the identification of opportunities which meet this criteria. In the current low interest rate environment, APN's 'property-for-income' strategy and product suite, built around transparent and sustainable property backed income streams, is expected to continue to be well supported. The Board remains optimistic regarding the Company's ability to grow its sustainable earnings, dividends and shareholder value into the future.

Dividend, Dividend Stability and Guidance

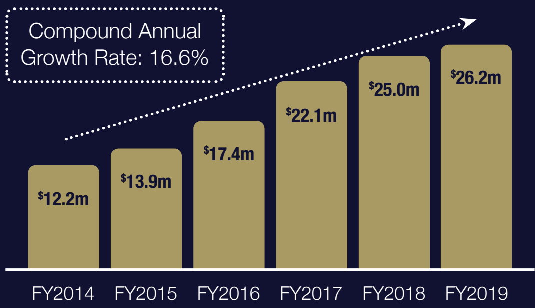
Dividends totalling 2.75 cps have been declared in relation to FY19, of which 1.925 cps was fully franked and 0.825 cps unfranked. The interim dividend of 1.25 cps (fully franked) was paid to shareholders on 15 March 2019, with the final dividend of 1.50 cps (franked to 45%) payable on 26 September 2019 to those shareholders registered as at 9 September 2019. The dividend reinvestment plan remains suspended.

The Board has issued guidance to the market that its view is that the dividend is sustainable at this level for the foreseeable future (based on current market conditions). As part of this and based on the Group's current capital structure (that is, independent of any potential adoption of a stapled structure), dividends of 2.75 cps (partially franked) are forecast to be paid in respect of FY20, based on no unforeseen events and a continuation of current market conditions.

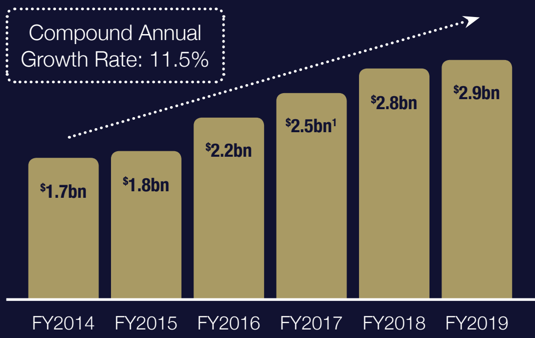
The Board has reviewed the type of guidance it provides and has determined in future to issue dividend guidance in place of its previous practice of issuing operating earnings guidance. The approach is based on the Board's view of what will be most useful for investors.

APN Property Group business growth from continuing business

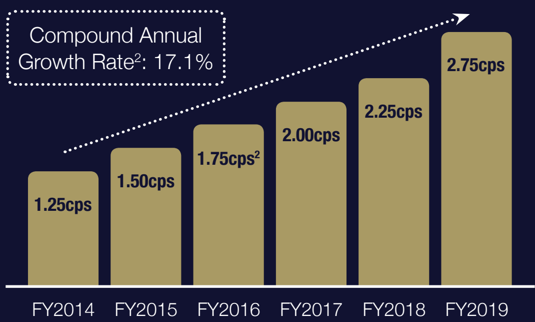
Recurring income growth



Funds under management



Dividends



1 30 June 2017 FUM of $2.5 billion. Pro-Forma 30 June 2017 FUM of $2.6 billion, includes $113 million of asset acquisitions not complete at balance date but scheduled to settle before 31 October 2017 by Convenience Retail REIT.
2 Excludes special dividend of 10cps.

Key risks

The following are key risk areas that could impact the APN Group's ability to achieve its strategic objectives and impact its prospects for future years.

Regulatory risk

APN operates in a highly regulated environment and our success can be impacted by breaches to our, or our key customers (i.e. bank intermediated wraps and platforms), regulatory licence conditions, changes to the regulatory environment and/or the structure of the markets that we operate in. Regulatory breaches and structural changes to the market and its participants may affect APN and its key customers ability to successfully operate through penalties, restrictions on business activities, breaches of trust (an organisations social licence to operate), compliance and other costs. APN has a regulatory compliance framework established to monitor adherence with its licence conditions at all times.

In addition, the Australian funds management and financial services industry continues to operate in a period of significant regulatory change and independent external review, with particular focus currently on the regulatory and customer responses to the findings of the Royal Commission's investigations into the misconduct in the Banking, Superannuation and Financial Services Industry. While the responses to the findings and recommendations arising from this Royal Commission are evolving, it is possible that these could adversely impact APN's business model or result in its business and/or strategic objectives not being achieved. APN closely monitors and actively engages with industry bodies on changes that could impact our business.

Operational and market risk

As a fund manager, APN depends on the skills and expertise of its employee team to deliver investment performance and outstanding service to meet and exceed the expectations of our investors and other stakeholders. Significant or prolonged underperformance of funds managed by APN may affect the ability of APN to retain existing and attract new business. In addition, the economic environment, particularly interest rates, and market volatility have the potential to influence the investment preferences and products considered desirable by our existing and potential investors. APN continuously monitors investment performance, service levels, market conditions and its product suite to ensure that these continue to meet investor requirements and expectations.

Subsequent events

On 2 July 2019, APN's Chief Financial Officer (Michael Groth) resigned. Accordingly, the payment and/or vesting terms of his short and long term incentive entitlements recognised at reporting date will not be met. Employee benefit costs associated with the short and long term incentive entitlements totalling $1,076,000 (after tax) previously recognised as an expense will be written back to the profit or loss in FY20.

Subsequent to year end, APN has accepted offers to acquire a further $1,710,000 of its investment in APN Regional Property Fund at $1.43 per unit from new and existing investors.

Other than described above, there have been no other matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' shareholdings

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

	Directors				
	Christopher Aylward	Clive Appleton	Howard Brenchley	Timothy Slattery	Anthony Young
APN Property Group Limited					
Number of fully paid ordinary shares	80,350,000	915,001	9,500,000	598,180	10,544,407
Number of shares issued under limited or non-recourse loans, disclosed as share options	–	3,900,001	–	7,500,000	–
Share options	–	–	–	7,500,000	–
Number of securities in a related body corporate					
APN Industria REIT	120,000	–	–	7,629	–
APN Convenience Retail REIT	–	–	39,075	–	322,034
APN Property for Income Fund No. 2	–	9,077	–	–	–
APN AREIT Fund	–	389,921	98,056	–	–
APN Asian REIT Fund	500,701	197,224	–	–	–
APN Steller Development Fund	750,000	–	–	50,000	–
APN Regional Property Fund	2,439,704	–	91,474	–	–
APN Nowra Property Fund	500,000	60,000	100,000	–	–

Share options granted / exercised

In the period since 1 July 2018:

- there were no share options granted to directors / five highest remunerated officers of the company and its controlled entities as part of their remuneration. Further details are set in note 27; and
- the following options over unissued shares (in relation to share options granted in prior years under the employee share option plan) were exercised during the financial year:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
APN Property Group Limited	2,665	Ordinary shares	2,665	–

Unissued shares under option

There are no unissued ordinary shares of the Company. The interests in the Company under options are set out in note 27.

Directors' meetings

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

	APN Board		Audit and Risk Management committee		Nomination and Remuneration committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Christopher Aylward	13	13	N/A	N/A	N/A	N/A
Clive Appleton	13	11	2	1	1	1
Howard Brenchley	13	12	2	2	1	1
Timothy Slattery	13	13	N/A	N/A	N/A	N/A
Anthony (Tony) Young	13	13	2	2	1	1

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

	APN FM Board		Audit, Compliance and Risk Management committee		Nomination and Remuneration committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Geoff Brunsdon	11	11	7	7	1	1
Jennifer Horrigan	11	11	7	7	1	1
Michael Johnstone	11	11	7	7	1	1
Howard Brenchley	11	11	N/A	N/A	N/A	N/A

Future developments

The Group remains focused on growing its funds management business. Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Environmental regulations

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

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 unlawful conduct. 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. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. The Company has not indemnified, nor made a relevant agreement to indemnify, the auditor of the Group or any related body (corporate) against a liability incurred by the auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 35 of the annual report. No officer of the Company was a partner or director of the auditor at any time when the auditor undertook an audit of the Company.

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 32 to the financial statements.

The audit and risk management committee 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 audit and risk management committee are of the opinion that the services as disclosed in note 32 do not compromise the external auditor's independence, 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 the 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.

Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report

Director and key management personnel details

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

Directors of APN

- Christopher Aylward (Non-Executive Chairman)
- Clive Appleton (Independent Director)
- Howard Brenchley (Independent Director)
- Timothy Slattery (Managing Director and Chief Executive Officer)
- Anthony (Tony) Young (Independent Director)

Directors of APN FM

- Geoff Brunsdon AM (Independent Chairman)
- Jennifer Horrigan (Independent Director)
- Michael Johnstone (Independent Director)
- Howard Brenchley (Independent Director)
- Michael Groth (Alternate Executive Director for Howard Brenchley)

The key management personnel of the Group and the Company who were not directors for the financial year were:

- Chantal Churchill (Company Secretary and Head of Risk and Compliance)
- Michael Groth (Chief Financial Officer)

Remuneration policy for directors and key management personnel

Principles of compensation

Remuneration is referred to as compensation throughout this report. The information provided in the remuneration report has been audited.

This remuneration report relates to the key management personnel (including executive and non-executive directors) and the Company Secretary, being those people who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

Compensation packages for directors and key management personnel of the Company and the Group are competitively set to attract and retain committed, capable and highly motivated people and reward them for delivering the Group's strategic objectives and to create value for the Group and its shareholders. The compensation packages take into account:

- the capability, qualifications and experience of the directors and key management personnel;
- the directors' and key management personnel's ability to control the Group's performance;
- the Group's performance including:
  - the Group's earnings;
  - the growth in the Company's share price and returns delivered for shareholders; and
- the potential contribution of performance based incentives as part of the overall remuneration of directors and key management personnel.

As part of the application of these principles, the Board reviews market remuneration benchmarks (including its peers) for appropriately qualified executives and employees and both the individual and team performance of existing employees.

Compensation of non-executive directors

Fees and payments to non-executive directors reflect the demands and responsibilities of those directors and are reviewed by the Board annually. 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 $900,000. Non-executive directors are not entitled to any retirement benefits.

Remuneration for all non-executive directors is in the form of fixed compensation and not by way of a commission on, or a percentage of, profits or operating revenue, with the exception of Clive Appleton who is presently entitled to the benefit of shares in APN that were issued when he was managing director, pursuant to the incentive arrangements detailed below.

Subject to the Corporations Act, fees paid for extra services and reimbursement of necessary expenses do not form part of the annual fee pool limit approved by shareholders.

Compensation of executive directors and key management personnel

APN's remuneration policy framework has the following key components:

- Fixed compensation – Salary, including superannuation and employee fringe benefits;
- Short term incentives (STI) – Performance-linked entitlements to cash bonuses; and
- Long term incentives (LTI) – Performance-linked entitlements to shares in APN.

Compensation packages for executive directors and key management personnel may include a mix of fixed (including non-cash benefits) and variable compensation (STI & LTI) components. In accordance with the Company's Securities Trading Policy, LTI recipients are prohibited from entering into any kind of transaction which limits the economic risk of participating in that scheme. Compensation packages and key performance indicators ("KPIs") are reviewed annually and on promotion by the Board through a process that considers individual, segment and overall performance of the Group, the role and responsibilities of the individual. External remuneration consultants are utilised by the Board where considered necessary to ensure remuneration is appropriately structured and commensurate with comparable roles in the market. No external remuneration consultants were engaged in the current year.

Fixed compensation

Fixed compensation comprises a base salary which is calculated on a total cost basis, inclusive of employer contributions to superannuation funds, and any employee fringe benefits.

Short term incentives (STI)

Short term incentives are discretionary and non-discretionary cash bonuses that may be payable annually. They are structured to reward outstanding performance assessed against agreed financial and non-financial KPIs. All permanent employees (excluding non-executive directors) with more than 6 months service at the end of each financial year are eligible for consideration for a STI award.

For the Managing Director / Chief Executive Officer (Timothy Slattery) and the Chief Financial Officer (Michael Groth), STIs are principally determined as below:-

- 25% of base salary (exclusive of superannuation) if APN exceeds its Operating Earnings Per Share (EPS) annual budget;
- Up to a maximum of 50% of base salary (exclusive of superannuation), calculated on a pro-rata basis if APN exceeds its Operating EPS annual budget by 20%;
- subject to achieving agreed non-financial key performance indicators that relate to strategy, culture and compliance; and
- payable in 2 equal installments, 12 months apart, subject to continuing employment at the time of payment.

For other key management personnel STIs are principally determined on whether the Group exceeds budgeted Operating EPS in a given financial year and the achievement of agreed individual and team key performance indicators. Actual STI entitlements are determined subsequent to the end of the relevant financial year and are paid from the general STI provision raised at year end.

A limited number of employees have the opportunity to earn STIs in accordance with pre-determined individual or team performance criteria. These arrangements are approved in advance by the Board. Generally, the STI entitlement is paid in two equal installments over three years, conditional upon continued employment at the time each payment is due.

All other eligible employees will be considered for an STI annually depending upon performance against criteria established for each individual. STIs are determined by the Board in its absolute discretion, having regard to the financial performance of APN for the financial year.

Long term incentives (LTI)

Long term incentives are generally equity based incentives designed to attract, retain and motivate selected employees' who can contribute to the strategic objectives and success of the Group and include the APN Employee Performance Securities Plan and the APN Timothy Slattery Executive Share Plan. Participation in the ownership of APN through LTIs is subject to vesting criteria aligned to the creation of long term shareholder value via agreed targets based on the growth in Operating EPS (which excludes acquisition and disposal fees and market to market changes in the value of APN's co-investments) over defined time periods.

The Board's view is that growth in recurring Operating EPS is the most appropriate measure of future long term growth of the Groups value.

APN Employee Performance Securities Plan (EPSP) / APN Timothy Slattery Executive Share Plan (TSESP)

In accordance with the terms and conditions of the EPSP and TSESP, selected employees are granted the right to acquire shares at a nominated exercise price subject to agreed service and performance criteria (i.e. vesting conditions) being satisfied. On satisfaction of the vesting conditions the shares are issued to the employee with the exercise price being financed by a limited recourse loan if applicable. No amount is paid or payable by the employee on receipt of these shares. Dividends declared and paid on the issued shares are for the benefit of the employee. The employee is not permitted to deal in the shares until the limited recourse loan has been repaid. In accordance with the Accounting Standards, shares issued under the EPSP and TSESP are characterised as options for reporting purposes.

At 30 June 2019, the fair value of the share options issued and included in the equity compensation reserve is $3,589,290 (2018: $3,128,931).

The following offers were made or modified in the year ended 30 June 2019 (in accordance with the EPSP and TSESP) that affect the remuneration of key management personnel in the current financial year or future financial years:

Options series	Grant date, Modified date	Number	Exercise price	Grant date fair value	Revalued at modified date fair value	Modified date fair value
(15) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.07	$0.05	$0.05
(16) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.09	$0.05	$0.06
(17) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.09	$0.05	$0.08
(18) Issued 7 December 2016, modified 1 May 2018	7 Dec 2016, 1 May 2018	833,333	–	$0.37	$0.41	$0.39
(19) Issued 7 December 2016, modified 1 May 2018	7 Dec 2016, 1 May 2018	833,333	–	$0.35	$0.39	$0.37
(20) Issued 7 December 2016, modified 1 May 2018	7 Dec 2016, 1 May 2018	833,334	–	$0.35	$0.39	$0.36
(24) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,333	$0.40	$0.08	$0.06	$0.06
(25) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,333	$0.40	$0.08	$0.06	$0.07
(26) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,334	$0.40	$0.08	$0.06	$0.07

Series (15), (18) & (24): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle of 2.80 cents per share (performance criteria) has been achieved. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2018 from 30 November 2019/30 November 2020 to 31 December 2020.

Series (16), (19) & (25): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 2.80 cents per share (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.25 cents per share at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020.

Series (17), (20) & (26): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.25 cents per share (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.70 cents per share at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020.

*Approved at APN's Annual General Meeting on 21 November 2018.

Unvested share options expire on the cessation of the individual employees' employment with APN. Any loan balance outstanding on vested share options is repayable no later than 12 months (if required to serve a notice period) or 18 months (if not required to serve a notice period) from the date the employee ceases to be an APN employee.

Share based-payments compensation to key management personnel modified during the current financial year are as follows:

		During the year					
Name	Options series	No. granted	Modification date	Market price at modification date	Time remaining until expiry	Difference in fair value immediately before/after modification	Changes to terms of vesting conditions
Timothy Slattery	Series (15) (16) (17)	7,500,000	21 November 2018	$0.44	771 days	$80,993	No changes to performance criteria, other than the expiry date has been extended to 31 December 2020.

*Approved by shareholder at annual general meeting on 21 November 2018

No share options were exercised or lapsed during the year in relation to options granted to key management personnel as part of their remuneration.

APN Employee Share Gift Plan (ESGP)

Under the APN Property Group Employee Share Gift Plan (Employee Gift Plan) all eligible permanent employees of the Group may be offered the opportunity to receive, for no consideration, up to $1,000 in shares at market value. Employees who receive employee gift shares will be restricted from dealing in those shares until the earlier of three years from acquisition date or the date the employee ceases employment. The operation of this plan is assessed annually by the Board.

At 30 June 2019, $nil (2018: $nil) has been recognised as employee expenses / included in the equity compensation reserve.

Other Incentive Plans (no longer in operation)

Some employees retain entitlements under former plans but no new benefits will accrue from them. These are:

APN Employee Share Plan (ESS)

The APN Employee Share Plan is no longer in operation however shares / options previously issued under this plan remain outstanding. Under the terms and conditions of the ESS, shares were issued at market price and financed by a limited recourse loan. No amounts were paid or payable by the recipients on receipt of the shares / options. In accordance with the Accounting Standards, shares issued under the ESS are characterised as options for reporting purposes.

Clive Appleton Share Trust (CAST)

Shares were issued to former managing director, Clive Appleton in September 2004 pursuant to the APN Property Group Clive Appleton Share Plan. The terms and conditions are the same in all material respects with the ESS outlined above.

At 30 June 2019, 3,900,001 (2018: 3,900,001) share options were outstanding and the fair value of share options under this arrangement included in the equity compensation reserve is $104,000 (2018: $104,000). The shares are fully vested and can be exercised at any time.

Executive Directors and Key Management Personnel service agreements

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

Letters of employment for key management personnel provide for various conditions in line with market practice including:

- an annual remuneration package and benefits including superannuation which is reviewed at least on an annual basis with the outcomes of the review applied on 1st July each year (except in relation to the remuneration package for Timothy Slattery and Michael Groth which will not be reviewed until at least 31 December 2020);
- 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 employees from engaging in specified activities after their employment with the Group ceases.

There are no termination payments provided for in these contracts or in the employment contracts of any other key management personnel. All key management personnel service agreements or letters of employment provide for a notice period of between 3 to 6 months.

Relationship between the remuneration policy and Company performance

The Company considers that its remuneration structures have been successful in incentivising employees to enhance Company performance and shareholder wealth over the 5 years to 30 June 2019 as illustrated in the table below:

	30 June 2019 $'000	30 June 2018 $'000	30 June 2017 $'000	30 June 2016(i) $'000	30 June 2015(i) $'000
Revenue	26,709	25,902	25,149	39,056	28,699
Sundry income	21	8	27	18	38
	26,730	25,910	25,176	39,074	28,737
Operating Earnings after tax (i)	9,232	8,211	7,320	10,507	6,922
Net profit after tax	14,533	13,565	10,755	54,747	14,839

	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Share price at start of year	0.45	$0.41	$0.50	$0.37	$0.29
Share price at end of year	0.50	$0.45	$0.41	$0.50	$0.37
Interim dividend	1.25 cps(ii)	1.25 cps(iv)	1.25 cps(iv)	1.25 cps(iv)	1.25 cps(iv)
Final dividend,	1.50 cps(iii)(v)	1.00 cps(iv)	0.75 cps(iv)	0.50 cps(iv)	0.25 cps(iv)
Special dividend (iv)	–	–	–	10.00 cps	–
Operating earnings per share (i)	2.94 cps	2.63 cps	2.35 cps	3.46 cps	3.05 cps
Basic earnings per share	4.79 cps	4.48 cps	2.84 cps	16.96 cps	5.65 cps
Diluted earnings per share	4.67 cps	4.39 cps	2.79 cps	16.60 cps	5.58 cps

(i) Includes operating earnings from the Healthcare division while it was a continuing operation (divested on 26 June 2016).
(ii) Franked to 100% at 27.5% corporate income tax rate
(iii) Franked to 45% at 27.5% corporate income tax rate
(iv) Franked to 100% at 30% corporate income tax rate.
(v) Declared after balance date and not reflected in the financial statements.

Remuneration as a percentage of actual aggregate remuneration for the year ended 30 June 2019

	Non Performance based		Performance based remuneration			
	Fixed remuneration		LTI – Performance shares		STI – Cash based	
	2019	2018	2019	2018	2019	2018
Directors – Executive						
Christopher Aylward, Non-Executive Chairman	100.00%	100.00%	–	–	–	–
Timothy Slattery, CEO	61.97%	46.92%	20.00%	25.20%	18.03%(ii)	27.88%(ii)
Directors – Non-Executive (APN)	–					
Clive Appleton (Independent)	100.00%	100.00%	–	–	–	–
Howard Brenchley (Independent)(i)	100.00%	100.00%	–	–	–	–
Anthony Young (Independent)	100.00%	100.00%	–	–	–	–
Directors – Non-Executive (APN FM)						
Geoff Brunsdon (Independent)	100.00%	100.00%	–	–	–	–
Jennifer Horrigan (Independent)	100.00%	100.00%	–	–	–	–
Michael Johnstone (Independent)	100.00%	100.00%	–	–	–	–
Key Management Personnel						
Michael Groth	55.77%	39.26%	28.46%	36.47%	15.77%(ii)	24.27%(ii)
Chantal Churchill	89.86%	86.28%	2.93%	6.06%	7.21%(iii)	7.66%(iii)

(i) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(ii) Includes the STI entitlement for the current year's performance based on the STI plan as disclosed in the Remuneration report
(iii) STI awarded and paid in relation to the Company's performance for the prior financial year. The STI entitlement in relation to the current year's performance will be awarded and paid in the year ended 30 June 2020, out of the general STI provision established in the current financial year.

No key management personnel appointed during the year received a payment as consideration for agreeing to hold the position.

Director and Key Management Personnel remuneration

Details of the directors and key management personnel of the Company and/or the Group during the year:

2019	Short-term employee benefits Salary & fees $	STIs $	Non-monetary $	Post-employment benefits Super-annuation $	Other long-term employee benefits Long service leave $	Share-based payments(iv) Equity-settled Options and rights (LTIs) $	Total $
Directors - Executive							
Timothy Slattery (i)	469,469	145,391(iv)	–	20,531	9,807	161,294	806,492
Directors - Non-Executive (APN)							
Christopher Aylward (i)	38,379	–	–	3,646	–	–	42,025
Clive Appleton (i)	79,452	–	–	7,548	–	–	87,000
Howard Brenchley (i),(ii)	192,000	–	–	–	–	–	192,000
Anthony Young (i)	87,000	–	–	–	–	–	87,000
Directors - Non-Executive (APN FM)							
Geoff Brunsdon	230,000	–	–	–	–	–	230,000
Jennifer Horrigan	138,000	–	–	–	–	–	138,000
Michael Johnstone	108,250	–	–	–	–	–	108,250
Key Management Personnel							
Michael Groth (i)	354,469	108,016(v)	–	20,531	6,862	194,888	684,766
Chantal Churchill (i)	184,552	17,705(vi)	–	18,327	17,779	7,201	245,564
Total compensation: (Group)	1,881,571	271,112	–	70,583	34,448	363,383	2,621,097
Total compensation: (Company)	1,405,321	271,112	–	70,583	34,448	363,383	2,144,847

(i) Company and Group.
(ii) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(iii) Options priced using Black-Scholes option pricing model. The value of options granted or modified during the period is recognised in compensation over the remaining vesting period of the grant.
(iv) Includes the STI entitlement for the current year's performance based on the STI plan as disclosed in the Remuneration report of $170,182, offset by the reversal of an over accrual of the FY18 STI entitlement of $24,791. In accordance with the terms of the STI plan, payment of the STI is subject to continuing employment at the time of payment, with payment of 50% of the STI incentive entitlement deferred for 12 months.
(v) Includes the STI entitlement for the current year's performance based on the STI plan as disclosed in the Remuneration report of $128,495, offset by the reversal of an over accrual of the FY18 STI entitlement of $20,479. In accordance with the terms of the STI plan, payment of the STI is subject to continuing employment at the time of payment, with payment of 50% of the STI incentive entitlement deferred for 12 months.
(vi) STIs awarded and paid in relation to the Company's performance for the prior financial year. The STI entitlement in relation to the current year's performance will be awarded and paid in the year ended 30 June 2020, out of the general STI provision established in the current financial year.

2018	Short-term employee benefits: Salary and fees $	Short-term employee benefits: STIs(v) $	Short-term employee benefits: Non-monetary(iii) $	Post-employment benefits: Super-annuation $	Other long-term employee benefits: Long service leave $	Share-based payments(iv): Equity-settled Options & rights (LTIs) $	Total $
Directors - Executive							
Timothy Slattery (i)	419,592	271,500(v)	–	20,049	17,366	245,396	973,903
Directors - Non-Executive (APN)							
Christopher Aylward (i)	38,379	–	1,585	3,646	–	–	43,610
Clive Appleton (i)	79,452	–	–	7,548	–	–	87,000
Howard Brenchley (i),(ii)	192,000	–	–	–	–	–	192,000
Anthony Young (i)	87,000	–	–	–	–	–	87,000
Directors - Non-Executive (APN FM)							
Geoff Brunsdon	230,000	–	–	–	–	–	230,000
Jennifer Horrigan	106,250	–	–	–	–	–	106,250
Michael Johnstone	136,000	–	–	–	–	–	136,000
Key Management Personnel							
Michael Groth (i)	341,021	231,250(v)	–	20,049	13,072	347,592	952,984
Chantal Churchill (i)	168,950	16,500(vi)	–	17,050	–	13,071	215,571
Total compensation: (Group)	1,798,644	519,250	1,585	68,342	30,438	606,059	3,024,318
Total compensation: (Company)	1,326,394	519,250	1,585	68,342	30,438	606,059	2,552,068

(i) Company and Group.
(ii) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(iii) This relates to travel benefits and the associated fringe benefit tax incurred during the year.
(iv) Options priced using Black-Scholes option pricing model. The value of options granted or modified during the period is recognised in compensation over the remaining vesting period of the grant.
(v) Includes the 2017 STI awarded and paid of $100,000 and a STI entitlement for the current year's performance of $171,500 for Timothy Slattery and $131,250 for Michael Groth. In accordance with the terms of the 2018 STI plan, payment of 50% of the 2018 STI incentive is deferred 12 months and remains subject to continuing employment.
(vi) STIs awarded and paid in relation to the Company's performance for the prior financial year. The STI entitlement in relation to the current year's performance will be awarded and paid in the year ended 30 June 2019, out of the general STI provision established in the current financial year.

Loans to key management personnel

There are no loans to key management personnel in the current period (2018: $nil).

Key management personnel equity holdings

Fully paid ordinary shares of APN Property Group Limited

2019	Balance at 30 June 2018 No.	Granted as compens-ation No.	Received from share gift plan No.	Purchased No.	Disposed No.	Balance at 30 June 2019 No.	Balance held nominally No.
Directors							
Christopher Aylward	78,300,000	–	–	2,050,000	–	80,350,000	–
Clive Appleton	915,001	–	–	–	–	915,001	–
Howard Brenchley	9,500,000	–	–	–	–	9,500,000	–
Timothy Slattery	473,780	–	–	124,400	–	598,180	–
Anthony Young	10,544,407	–	–	–	–	10,544,407	–
Key Management Personnel							
Michael Groth	139,390	–	–	–	–	139,390	–
Chantal Churchill	2,610	–	–	–	–	2,610	–

2018	Balance at 30 June 2017 No.	Granted as compens-ation No.	Received from share gift plan No.	Purchased No.	Disposed No.	Balance at 30 June 2018 No.	Balance held nominally No.
Directors							
Christopher Aylward	77,850,000	–	–	450,000	–	78,300,000	–
Clive Appleton	915,001	–	–	–	–	915,001	–
Howard Brenchley	9,500,000	–	–	–	–	9,500,000	–
Timothy Slattery	403,780	–	–	70,000	–	473,780	–
Anthony Young	10,544,407	–	–	–	–	10,544,407	–
Key Management Personnel							
Michael Groth	139,390	–	–	–	–	139,390	–
Chantal Churchill (i)	2,610	–	–	–	–	2,610	–

(i) Appointed on 1 December 2016

Share options of APN Property Group Limited

2019	Balance at 30 June 2018 No.	Granted as compens-ation No.	Exercised No.	Other changes No.	Balanace at 30 June 2019 No.	Balance vested at 30 June 2019 No.	Vested but not exercis-able No.	Vested and exercis-able No.	Options vested during year No.
Directors									
Clive Appleton	3,900,001	–	–	–	3,900,001	3,900,001	–	3,900,001	–
Timothy Slattery	15,000,000	–	–	–	15,000,000	7,500,000	–	7,500,000	–
Key Management Personnel									
Michael Groth	10,025,000	–	–	–	10,025,000	7,525,000	–	7,525,000	–
Chantal Churchill	250,000	–	–	–	250,000	–	–	–	–

2018	Balance at 30 June 2017 No.	Granted as compens-ation No.	Exercised No.	Other changes No.	Balanace at 30 June 2018 No.	Balance vested at 30 June 2018 No.	Vested but not exerci-sable No.	Vested and exercisable No.	Options vested during year No.
Directors									
Clive Appleton	3,900,001	–	–	–	3,900,001	3,900,001	–	3,900,001	–
Timothy Slattery	15,000,000	–	–	–	15,000,000	7,500,000	–	7,500,000	–
Key Management Personnel									
Michael Groth	10,025,000	–	–	–	10,025,000	7,525,000	–	7,525,000	–
Chantal Churchill	–	250,000	–	–	250,000	–	–	–	–

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

Further details of the employee share option plan and share options granted are contained in note 27.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

Christopher Aylward
Chairman
22 August 2019

APN CORPORATE GOVERNANCE STATEMENT

APN Property Group (APN PG or Company) is comprised of several entities including APN Funds Management Limited (APN FM), a wholly owned subsidiary. APN FM manages APN's listed and unlisted managed investment schemes and mandates (APN Funds) in its role as responsible entity, trustee and/or manager. In this Corporate Governance Statement the Company and its subsidiaries together are referred to as the "APN Group".

The boards of APN PG and APN FM operate independently of each other.

The board of APN PG (Board) comprises five directors, one Non-Executive Director (the Chairman), three independent directors and the Managing Director/Chief Executive Officer, who collectively have a relevant interest in over 35% of the issued capital of the Company. The Board is responsible for the overall management of the Company and of the APN Group and is strongly focused on serving the interests of all stakeholders.

The board of APN FM comprises four independent directors (including the Chairman), one of whom is also an APN PG director. Each director has a legal obligation to put the interests of investors in the funds for which APN FM is responsible entity and/or trustee, ahead of their own and those of APN FM's sole shareholder, APN PG.

The Board considers that the establishment of an independent board (APN FM) ensures that the responsibility for managing the interests of shareholders in the Company is independent of managing the interests of the APN Funds and their respective investors. This separation also assists in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

Through its directors, executives and staff, the Company is committed to the highest standards of governance. The corporate governance framework incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

The Company conducts its business in accordance with these charters and codes, as well as other key policies which are published on its website. These include:

- Board Charter
- Audit and Risk Committee Charter
- Nomination and Remuneration Charter
- Code of Conduct
- Communication and Continuous Disclosure Policy
- Conflicts of Interest and Related Party Transactions Policy
- Diversity Policy
- Privacy Policy
- Securities Trading Policy
- Whistleblower Policy
- Anti-Bribery and Corruption Policy

APN PG's full corporate governance statement can be downloaded from its website at https://apngroup.com.au/about-us/governance/. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 3rd Edition), unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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22 August 2019

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

Dear Board Members

Independence Declaration – 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 report of APN Property Group Limited for the financial year ended 30 June 2019, 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 faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Members of APN Property Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of APN Property Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation and Classification of Asset Held for Sale As disclosed in Note 10, APN Property Group Ltd acquired units in APN Regional Property Fund ("REGI") as part of the REGI's recapitalisation and liquidity offer in April 2019. The Group has the intention of progressively selling down its investment in REGI to new and existing investors over the next 12 months. Due to the Groups intention to sell down its investment in REGI, the investment has been classified as an asset held for sale as at 30 June 2019. The determination of this classification requires judgement in assessing whether the requirements of AASB5 *Non-current assets held for sale and discontinued operations* have appropriately been met. Additionally, consideration is required over the valuation of the asset held for sale. This is required to be measured at fair value under AASB9 *Financial Instruments.*	Our procedures relating to the classification of the asset as held for sale included, but were not limited to: - Reviewing the requirements for the classification of an asset held for sale as per the relevant accounting standard. - Obtaining documentation to support the intention of the Group to sell the units in REGI, as approved by the Board of Directors, which included public announcements and marketing plans. Our procedures relating to the valuation of the asset included, but were not limited to: - Obtaining an understanding of the key controls associated with the valuation of the unlisted investments. - Assessing that the valuation of the asset appropriately represents the fair value. We have also assessed the appropriateness of the disclosures included in Note 10 to the financial statements.
Accuracy of Fund Management, Registry and Performance Fees Revenue Management, registry and performance fees recorded as revenue within the statement of profit or loss and other comprehensive income are disclosed within the Note 5 to the financial statements for the year ended 30 June 2019. The Group oversees and manages real estate funds and agreements with third parties. Management, registry and performance fee revenue is earned by the group for providing these services in accordance with relevant Disclosure Documents. These revenue streams are quantitatively material to the Group and are subject to judgement and variability with regards to the size and timing of the fees recognised. There were no performance fees recorded during the year ended 30 June 2019 as management concluded that at the reporting date, not all the required performance obligations to accrue performance fees had been satisfied.	Our procedures included, but were not limited to: - Testing the effectiveness of controls in relation to the calculation of management fees and performance fees. - Performing substantive analytical procedures over fee revenue items in accordance with contractual arrangements. - Obtaining documentation to support samples of fee rebates. - Assessing the performance of the underlying funds and reviewing third party agreements to assess whether the relevant recognition criteria had been met. - Agreeing underlying criteria to Disclosure Documents to ensure appropriate revenue recognition. We have also assessed the appropriateness of the disclosures included in Note 2 to the financial statements.

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Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): 2019 Financial Year Highlights, Chairman's Letter, Chief Executive Officer's Letter and Summary to Shareholders, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the 2019 Financial Year Highlights, Executive Chairman's Letter and Summary to Shareholders, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 24-33 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of APN Property Group Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Partner
Chartered Accountants
Melbourne, 22 August 2019

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 are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;

(c) 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 Group; and

(d) 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

Christopher Aylward
Chairman
22 August 2019


SPARKE HELMORE

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Continuing operations			
Revenue	5	26,730	25,891
Cost of sales		(135)	(255)
Net revenue		26,595	25,636
Finance income	6	433	287
Administration expenses		(13,925)	(14,264)
Fair value adjustments and business acquisition costs	7	7,521	7,969
Finance costs	6	(521)	(752)
Profit before tax		20,103	18,876
Income tax expense	8	(5,580)	(5,318)
Profit for the year from continuing operations		14,523	13,558
Discontinued operations			
Profit for the year from discontinued operations	9	10	7
Profit for the year		14,533	13,565
Total comprehensive income for the year		14,533	13,565
Profit / (Loss) / Total comprehensive income / (loss) attributable to:			
Equity holders of the parent		14,533	13,565
Earnings per share			
From continuing operations			
Basic (cents per share)	15	4.79	4.48
Diluted (cents per share)	15	4.67	4.39

Notes to the financial statements are included on pages 49 to 93.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019

	Note	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	23	15,672	14,986
Trade and other receivables	24	5,554	6,177
Financial assets – held for sale	10	11,376	–
Investment property – held for sale	13	–	24,200
Total current assets		32,602	45,363
Non-current assets			
Financial assets	10	116,096	102,201
Property, plant and equipment	12	396	490
Intangible assets	11	1,756	1,742
Total non-current assets		118,248	104,433
Total assets		150,850	149,796
Current liabilities			
Trade and other payables	25	3,453	2,928
Current tax liabilities	8	210	782
Provisions	26	3,343	2,560
Borrowings associated with Investment property – held for sale	16	–	10,491
Borrowings	16	6,004	–
Total current liabilities		13,010	16,761
Non-current liabilities			
Borrowings	16	–	6,004
Provisions	26	1,061	1,769
Deferred tax liabilities	8	8,969	5,390
Total non-current liabilities		10,030	13,163
Total liabilities		23,040	29,924
Net assets		127,810	119,872
Equity			
Issued capital	17	102,885	102,882
Reserves	18	5,271	4,810
Retained earnings		19,654	12,180
Equity attributable to equity holders of the parent		127,810	119,872

Notes to the financial statements are included on pages 49 to 93.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Share capital $'000	Retained earnings $'000	Equity-settled employee benefits reserve $'000	Total Attributable to equity holders of the parent $'000
Balance at 1 July 2017	102,879	4,890	4,089	111,858
Profit for the year	–	13,565	–	13,565
Payment of dividends (note 14)	–	(6,275)	–	(6,275)
Share options exercised by employees	3	–	–	3
Share based payment expense	–	–	721	721
Balance at 30 June 2018	102,882	12,180	4,810	119,872
Profit for the year	–	14,533	–	14,533
Payment of dividends (note 14)	–	(7,059)	–	(7,059)
Share options exercised by employees	3	–	–	3
Share based payment expense	–	–	461	461
Balance at 30 June 2019	102,885	19,654	5,271	127,810

Notes to the financial statements are included on pages 49 to 93.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		19,428	20,053
Payments to suppliers and employees		(13,379)	(14,685)
Interest received		438	288
Distributions received		7,703	7,516
Interest and other costs of finance paid		(501)	(717)
Income taxes paid		(2,572)	(2,158)
Net cash provided by operating activities	23	11,117	10,297
Cash flows from investing activities			
Payments for investments		(24,810)	(17,335)
Proceeds on sale / return of capital from investments		9,309	950
Payments for property, plant and equipment		(61)	(444)
Payments / (Refund of deposits paid) for investment properties		–	3,146
Net cash flow on disposal of subsidiary	30	12,187	–
Net cash used in investing activities		(3,375)	(13,683)
Cash flows from financing activities			
Proceeds from issue of equity securities		3	3
Proceeds from / (Repayments of) borrowings	23	–	6,004
Dividends paid	14	(7,059)	(6,275)
Net cash used in financing activities		(7,056)	(268)
Net change in cash and cash equivalents		**686**	**(3,654)**
Cash and cash equivalents at the beginning of the financial year		14,986	18,640
Cash and cash equivalents at the end of the financial year	23	15,672	14,986

Notes to the financial statements are included on pages 49 to 93.


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NOTES TO THE FINANCIAL STATEMENTS

Contents

About this Report

1. General information

APN Property Group Limited (APN or the Company) is a public company listed on the Australian Securities Exchange (trading under the ASX ticker 'APD'), incorporated and operating in Australia.

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

The principal activity of the Company and the Group during the financial year was funds management.

2. 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 comprises the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards 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 22 August 2019.

2.1 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain assets and financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

2.2 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) – refer note 29 for a list of controlled entities (subsidiaries) as at year end. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses that control. Income and expenses of an entity are included in the financial statements of the Group for the period it is consolidated. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

2.3 Foreign currencies

Transactions in currencies other than an entities functional currency (i.e. a foreign currency transaction) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, 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 arising from retranslation are recognised in the profit or loss in the period in which they arise.

2.4 Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

2.5 The notes to the financial statements

The following notes include information required to understand the financial statements that is relevant and material to the operations, financial position and performance of the Group. The notes have been collated into sections to help users find and understand inter-related information. Information is considered material and relevant if, for example:

- the amount in question is significant by virtue of its size or nature;
- it is important to understand the results of the Group;
- it helps explain the impact of significant changes in the Group's business; or
- it relates to an aspect of the Group's operations that is important to its future performance.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors have made judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, however actual results may differ from these estimates. The judgements, estimates and assumptions made in the current period are contained in the following notes:

Note	Description
Note 11 – Intangible assets	Impairment of management rights
Note 20 – Financial risk management	Valuation of Level 3 financial instruments

Performance

This section shows the results and performance of the Group and includes detailed information in respect to the revenues, expenses and the profitability of the Group and each of its reporting segments.

4. Segment Information

4.1 Operating Segments

The reporting segment disclosure is consistent with information reported to the Group's chief operating decision makers for the purposes of resource allocation and assessment of performance, which is specifically focused on the categories of product being provided to the different market segments. Where applicable, the corresponding segment information in the prior period has been restated to reflect the newly reportable and amended segments in accordance with the Accounting Standards.

The Group's reportable segments are aligned to the categories of product managed by the Group and are as follows:

Reportable segments	Product type	Products
Continuing operations		
Real Estate Securities funds	Property securities funds and investment mandates	▪ APN AREIT Fund ▪ APN Property for Income Fund ▪ APN Property for Income Fund No. 2 ▪ APN Asian REIT Fund ▪ APN AREIT NZ PIE Fund ▪ Property Securities Investment Mandates
Industrial Real Estate fund	Listed real estate investment trust (REIT)	▪ APN Industria REIT (ADI)
Convenience Retail Property fund	Listed real estate investment trust (REIT)	▪ APN Convenience Retail REIT (AQR)
Direct Real Estate funds	Fixed term Australian property funds	▪ APN Regional Property Fund ▪ APN Coburg North Retail Fund ▪ APN Steller Development Fund ▪ APN Nowra Property Fund (i)
	Wholesale property funds	▪ APN Development Fund No.2
Investment revenue(i)	Investment and rental income received or receivable from investments	
Discontinued operations		
European Real Estate funds	De-listed real estate investment trust (REIT) and fixed term European property funds	▪ APN Champion Retail Fund ▪ APN European Retail Property Group (terminated)

(i) APN Nowra Property Fund which owns commercial property (as disclosed Note 13) was successfully syndicated on 8 November 2018. Prior to 8 November 2018, the contributions associated with this commercial property were recorded in the Investment revenue segment.

Information regarding these reportable segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

4.2 Segments revenues and results

The following is an analysis of the Group's revenue and results by reportable operating segments for the financial year:

	Segment revenue Year ended		Segment net revenue [(i)] Year ended		Segment profit Year ended	
	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Continuing operations						
Real estate securities funds	9,748	9,604	9,623	9,454	3,914	3,562
Industrial real estate fund	3,994	3,680	3,994	3,680	2,242	1,986
Convenience retail property fund	2,400	2,067	2,400	2,067	1,564	1,270
Direct real estate funds	1,901	1,336	1,901	1,336	606	(43)
Investment revenue	8,635	8,534	8,625	8,429	8,625	8,429
	26,678	25,221	26,543	24,966	16,951	15,204
Unallocated revenue and expenses						
Other income	52	670	52	670	52	670
Finance income					433	287
Central administration					(4,192)	(4,298)
Depreciation and amortisation					(141)	(204)
Finance costs					(521)	(752)
	26,730	25,891	26,595	25,636	12,582	10,907
Income tax expense					(3,350)	(2,696)
Net operating earnings after tax & Non-controlling interests (NCI)					9,232	8,211
Pre-tax fair value adjustments / business acquisition costs					8,946	7,969
Loss on disposal of subsidiary (note 30)					(1,425)	–
Income tax expense					(2,230)	(2,622)
					5,291	5,347
Total - Continuing operations	26,730	25,891	26,595	25,636	14,523	13,558
Discontinued operations						
European real estate funds	–	–	–	–	(32)	–
Healthcare real estate fund	–	19	–	19	42	7
					10	7
Total	26,730	25,910	26,595	25,655	14,533	13,565

(i) Segment net revenue is segment revenue less direct costs.

The revenue reported above includes revenue generated from related parties of $25,387,000 (2018: $23,584,000) and revenue from external parties of $1,343,000 (2018: $2,326,000). This represents the analysis of the Group's revenue from its major products. Related party transactions are disclosed in note 31. There were no intersegment sales during the year.

Segment profit represents the profit earned by each reportable operating segment without allocation of central administration costs, finance income and costs, impairment and fair value adjustments, depreciation and amortisation and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

4.3 Segments assets and liabilities

Information on assets and liabilities for each reportable operating segment is not required to be disclosed as such information is not regularly provided to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

4.4 Geographical information

The Group's operations are based in Australia (country of domicile).

4.5 Information about major customers

The analysis of the Group's revenue from its major customers and the operating segments reporting the revenues are as below:

Revenue from major customers	2019 $'000	2018 $'000
Customer A included in revenue from Real estate securities funds	7,860	9,358
Customer B included in revenue from Industrial real estate fund	3,994	3,679
Customer C included in revenue from Convenience retail property fund and other income	2,400	2,605

5. Revenue

An analysis of the Group's revenue from continuing operations for the year is outlined below:

2019	Real estate securities funds $'000	Industrial real estate fund $'000	Convenience retail property fund $'000	Direct real estate funds $'000	Investment revenue $'000	Total $'000
Funds management fees	7,690	3,831	2,288	1,354	–	15,163
Performance and transaction fees	–	–	–	322	52	374
Asset and project management fees	–	163	–	105	–	268
Registry and other income	2,058	–	112	120	5	2,295
Rental income from investment properties	–	–	–	–	645	645
	9,748	3,994	2,400	1,901	702	18,745
Distribution income (i) (ii)	–	–	–	–	7,985	7,985
	9,748	3,994	2,400	1,901	8,687	26,730

2018	Real estate securities funds $'000	Industrial real estate fund $'000	Convenience retail property fund $'000	Direct real estate funds $'000	Investment revenue $'000	Total $'000
Funds management fees	7,531	3,556	2,032	1,226	–	14,345
Performance and transaction fees	–	–	–	–	670	670
Asset and project management fees	–	124	3	–	–	127
Registry and other income	2,073	–	32	110	–	2,215
Rental income from investment properties	–	–	–	–	1,754	1,754
	9,604	3,680	2,067	1,336	2,424	19,111
Distribution income (i) (ii)	–	–	–	–	6,780	6,780
	9,604	3,680	2,067	1,336	9,204	25,891

Prior period comparatives have been restated to classify costs of sales totalling $1,971,000 as a reduction in Revenue to align to current period presentation. There has been no overall impact to net revenue or the net profit for the year.

(i) 'Distribution income' is from financial assets classified as at fair value through profit or loss.
(ii) Includes distribution income from related party co-investments of $7,984,000 (2018: $6,779,000)

Recognition and measurement

Revenue is recognised on an accruals basis, as a service is transferred to a customer or a performance obligation is satisfied (if it is highly probable that a significant reversal is unlikely to occur) and measured at the fair value of the consideration specified in the contract (net of amounts collected on behalf of third parties (GST)) and is summarised as follows:

Revenue category	Performance obligation	Recognition timing
Funds management fees	▪ Provision of responsible entity and/or investment management services	Over time
Performance and transaction fees	▪ Provision of management, acquisition, disposal, and/or fund establishment services	Point in time
Asset and project management fees	▪ Provision of leasing services ▪ Provision of project management, development management and/or property management services	Point in time Over time
Registry and other income	▪ Provision of investors and advisor relations, accounting, unit pricing and/or custodian services	Over time

Distribution income from investments is recognised when the right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

6. Finance income and costs

6.1 Finance income

Continuing operations	2019 $'000	2018 $'000
Bank deposits	433	287

6.2 Finance costs

Continuing operations	2019 $'000	2018 $'000
Loan	(507)	(734)
Bank charges	(14)	(18)
	(521)	(752)

Recognition and measurement

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued based on the effective interest rate method, which applies the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs are recognised in profit or loss in the period in which they are incurred based on the effective interest rate method.

7. Expenses

Continuing operations	2019 $'000	2018 $'000
Profit/(Loss) for the year has been arrived at after (charging)/crediting the following:		
(a) Gains and losses and other expenses:-		
Depreciation of property, plant and equipment and software assets	(141)	(204)
Employee benefits expenses:		
Salaries and wages	(7,894)	(7,833)
Superannuation contributions	(552)	(540)
Equity-settled share based payment transactions	(461)	(721)
Provision for long service and annual leave	(73)	(127)
Termination benefits	–	(53)
Operating lease expense	(600)	(545)
Write-down of property, plant and equipment	–	(26)
Doubtful debts recovered	–	15
Direct operating expenses incurred from income generating investment properties	(3)	(105)
(b) Impairment, fair value adjustments and business acquisition costs:-		
Change in fair value of financial assets designated as at fair value through profit or loss	9,707	7,993
Aborted business development / acquisition costs	(97)	(27)
Group restructuring expenses	(664)	–
Gain on disposal of investment	–	3
Loss on disposal of subsidiaries (note 13 / note 30)	(1,425)	–

Recognition and measurement

Depreciation: Refer note 12 for details on the Group's accounting policy for depreciation.

Employee benefits: Refer note 26 and note 27 for the Group's accounting policies for liabilities associated with employee benefits and share based payment transactions. Superannuation contribution plan payments are expensed when incurred.

Operating leases: Operating lease payments are recognised as an expense on a straight-line basis over the lease term (net of GST).

Fair value of financial assets: Refer note 10 for details on the Group's accounting policy for financial assets.

Fair value of investment properties: Refer note 13 for details on the Group's accounting policy for investment properties.

8. Income taxes

8.1 Income tax recognised in profit or loss

	2019 $'000	2018 $'000
Tax (expense)/income comprises:		
Current tax (expense)/income	(2,233)	(2,442)
Adjustments recognised in the current year in relation to prior years	232	1,131
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	(3,221)	(4,007)
Adjustments to deferred tax attributable to changes in tax rates and laws	(358)	–
Total tax expense for continuing operations	(5,580)	(5,318)
The expense for the year can be reconciled to the accounting profit as follows:		
Profit from operations	20,103	18,876
Income tax expense calculated at 27.5% (2018: 30.0%)	(5,528)	(5,663)
Effect of expenses that are not deductible in determining taxable profit	(191)	(786)
Effect of income that is exempt from income tax	265	–
Effect on deferred tax balances due to the change in income tax rate from 30.0% to 27.5% (effective 1 July 2018)	(358)	–
	(5,812)	(6,449)
Adjustments recognised in the current year in relation to the current tax of prior years	232	1,131
	(5,580)	(5,318)

For the year ended 30 June 2019, the tax-consolidated group is expected to be a base rate entity and have turnover less than $50.0 million. Accordingly, the corporate tax rate applicable to the tax-consolidated group is reduced from 30.0% to 27.5% with effect from 1 July 2018. The effect of this change in tax rate on deferred taxes has been disclosed above.

8.2 Income tax recognised directly in equity

During the year, there were no deferred tax assets (2018: $nil) arising from capital raising costs recognised directly in equity.

8.3 Current tax assets and liabilities

	2019 $'000	2018 $'000
Income tax (payable) / recievable	(210)	(782)

8.4 Deferred tax balances

2019 Temporary differences	Opening balance $'000	Recognised in profit and loss $'000	Closing balance $'000
Provisions and accruals	1,671	(157)	1,514
Property, plant and equipment / Investment properties	(529)	533	4
Blackhole expenditure	80	126	206
Intangible assets	(510)	–	(510)
Unrealised gains on revaluation of investments	(6,102)	(4,081)	(10,183)
Net deferred tax assets / (liabilities)	(5,390)	(3,579)	(8,969)

2018 Temporary differences	Opening balance $'000	Recognised in profit and loss $'000	Closing balance $'000
Provisions and accruals	1,293	378	1,671
Property, plant and equipment / Investment properties	(236)	(293)	(529)
Blackhole expenditure	213	(133)	80
Intangible assets	(510)	–	(510)
Unrealised gains on revaluation of investments	(2,143)	(3,959)	(6,102)
Net deferred tax assets / (liabilities)	(1,383)	(4,007)	(5,390)

Deferred tax balances are presented in the statement of financial position as follows:

	2019 $'000	2018 $'000
Deferred tax liabilities	(8,969)	(5,390)

8.5 Unrecognised deferred tax assets at the reporting date

There were no unrecognised deferred tax assets at reporting date (2018: $nil).

Recognition and measurement

Current tax

Current tax assets and liabilities are measured at the amount expected to be payable to or recoverable from taxation authorities, calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are not taxable or deductible in the current period or that are never taxable or deductible.

Deferred tax

Deferred tax is recognised on temporary differences between the financial statement carrying amounts of assets and liabilities and their corresponding tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and carried forward unused tax losses, to the extent that it is probable that taxable profit will be available to utilise them.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilise them.

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 is realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than as a result of a business combination) of assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. 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 offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to the same taxation authority and the Group intends to settle its obligations on a net basis.

Income taxes relating to items recognised directly in other comprehensive income or equity are recognised in other comprehensive income or equity and not in the statement of profit and loss.

8.6 Tax consolidation

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 29.

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.

9. Discontinued operations

The European real estate funds segment continues to be wound down. It is currently anticipated that this process will take several further years to fully complete. The Healthcare real estate fund was fully wound down during the current year.

9.1 Analysis of profit for the year from discontinued operations

The results of discontinued operations (i.e. Healthcare real estate fund and European real estate funds) included in the profit for the financial year are set out below.

	2019 $'000	2018 $'000
Profit for the financial year from discontinued operations		
Revenue	–	19
Expenses (incurred) / reversed	10	(12)
(Loss) / Profit for the financial year from discontinued operations attributable to equity holders of the parent	10	7
Net cash flows from operating activities from discontinued operations	(50)	7

Capital Investment

This section shows how the Group has utilised its capital structure to make investments that support its operating business model and future growth initiatives of the Group.

10. Financial assets

	2019 $'000	2018 $'000
Financial assets carried at fair value through profit and loss (i)		
Current assets – Financial assets held for sale (ii)	11,376	–
Non-current assets – Financial assets (iii)	116,096	102,201
	127,472	102,201

(i) Included are co-investments in related parties amounting to $127,460,000 (2018: $102,188,000) (note 31.2).
(ii) Represents the sub-underwriting units acquired as part of the April 2019 APN Regional Property Fund recapitalisation and liquidity offer. This investment was acquired with the intention of progressively selling it down to new and existing investors over the coming 12 months.
(iii) Co-Investment in related parties with carrying amount of $72,797,000 (2018: $61,790,000) have been pledged to secure borrowings of the Group (note 16).

Recognition and measurement

Financial assets are recognised or derecognised on the date the right to receive the benefits of the asset have been established or ceases.

Financial assets classified at fair value through profit or loss are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 20.

Financial assets are classified as 'financial assets at fair value through profit or loss' when the financial asset is either held for trading (sale) or designated as at fair value through profit or loss. A financial asset is classified as held for trading (sale) if it has been acquired principally for the purpose of selling in the near future. A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group of financial assets, which is managed and its performance is evaluated on, a fair value basis in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis.

11. Intangible assets

	Management rights $'000	Software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2017	1,700	459	2,159
Additions	–	33	33
Write-off	–	(19)	(19)
Balance at 30 June 2018	1,700	473	2,173
Additions	–	35	35
Balance at 30 June 2019	1,700	508	2,208
Accumulated amortisation / impairment losses			
Balance at 1 July 2017	–	(401)	(401)
Depreciation expense	–	(39)	(39)
Write-off	–	9	9
Balance at 30 June 2018	–	(431)	(431)
Depreciation expense	–	(21)	(21)
Balance at 30 June 2019	–	(452)	(452)
Net book value			
As at 30 June 2018	1,700	42	1,742
As at 30 June 2019	1,700	56	1,756

11.1 Management Rights impairment assessment

During the year the Group assessed the recoverable amount of management rights totalling $1,700,000 (2018: $1,700,000) associated with the Group's management of APN Industria REIT. No impairment adjustment was recorded in the current year (2018: $nil).

Recognition and measurement

Software assets

Software assets acquired separately and arising from development are initially measured at cost (including non-recoverable GST if applicable). Following initial recognition, software assets are carried at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of 3 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period, with any changes being recognised as a change in accounting estimate.

Software assets arising from development are recognised if all the following have been demonstrated:

- the technical feasibility of completing the software assets so that they will be available for use;
- the intention and ability (including the availability of sufficient resources) to complete the software assets and use them;
- how the software assets will generate future economic benefits; and
- the ability to measure reliably the expenditure attributable to the software assets during its development.

The amount capitalised for software assets arising from development is the sum of the expenditure incurred from the date when the software assets first meet the recognition criteria listed above. Amortisation begins when the software asset is available for its intended use.

Management rights

Management rights acquired are initially recognised at cost (including non-recoverable GST if applicable) and have indefinite estimated useful lives. Following initial recognition, management rights are carried at cost less accumulated impairment losses. Indefinite useful life estimates are reviewed at the end of each reporting period, with any change to a finite life being recognised as a change in accounting estimate.

Impairment

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss at least annually. 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Derecognition

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and its carrying amount, are recognised in profit or loss when the asset is derecognised.

Key estimates and assumptions – Impairment of Management Rights

The determination of the value in use of the cash generating unit of APN Industria REIT is subject to a number of key estimates and assumptions. The 5 year cashflow forecasts are based on past experience, general market conditions and are consistent with management's plans. The key estimates and assumptions applied to these forecast cashflows to determine value in use is set out below:

	APN Industria REIT	
	2019	2018
Discount rate (post tax)	9.9%	10.3%
Growth rate beyond 5 year plan	1.3%	1.9%
Head room as percentage of the CGU's net carrying amount	92.0%	89.1%

Management believe that any reasonably possible change in the key assumptions on which the recoverable amount is based upon would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

12. Property, plant and equipment

	Leasehold Improvements at cost $'000	Plant and equipment at cost $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2017	473	440	913
Additions	265	148	413
Write-off / Disposal	(5)	(101)	(106)
Balance at 30 June 2018	733	487	1,220
Additions	3	23	26
Balance at 30 June 2019	736	510	1,246
Accumulated amortisation / impairment losses			
Balance at 1 July 2017	(309)	(344)	(653)
Depreciation expense	(62)	(103)	(165)
Write-off / Disposal	3	85	88
Balance at 30 June 2018	(368)	(362)	(730)
Depreciation expense	(62)	(58)	(120)
Balance at 30 June 2019	(430)	(420)	(850)
Net book value			
As at 30 June 2018	365	125	490
As at 30 June 2019	306	90	396

Recognition and measurement

Plant, equipment and leasehold improvements

Plant, equipment and leasehold improvements are stated at cost (including non-recoverable GST if applicable) less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. Capital works in progress are carried at cost (including professional fees), less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation for plant and equipment is calculated on a straight line basis over its expected useful life of 3 – 7 years. Leasehold improvements are depreciated on a straight line basis over the period of the lease or estimated useful life of 4 – 7 years, whichever is the shorter. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes recognised on a prospective basis.

Impairment

Property, plant and equipment is tested for impairment in the same way as Intangible assets, refer note 11 for further details.

Derecognition

The gain or loss arising on disposal of an item of property, plant and equipment is determined as the difference between the sale proceeds (if any) and the carrying amount of the asset and is recognised in profit or loss.

13. Investment properties - held for sale

	Carrying amount	
	2019 $'000	2018 $'000
Balance at beginning of financial year	24,200	24,200
Disposals [i]	(24,200)	–
Balance at end of financial year	–	24,200

(i) On 8 November 2018, the Group lost control of the APN Nowra Property Fund (previously known as APN Convenience Retail Property Fund) following the successful completion of a capital raising offer announced in late June 2018 (note 30). APN Nowra Property Fund was the entity established to hold the commercial investment property owned by the Group that was held for the purpose of deriving rental income and/or capital appreciation.

13.1 Individual valuation and carrying amounts

	Ownership interest	Latest external valuation		Carrying amount		Capitalisation rate		Discount rate	
		Date	Valuation $'000	2019 $'000	2018 $'000	2019 %	2018 %	2019 %	2018 %
Commercial property									
Lot 2, 190-198 Princes Highway, South Nowra, NSW [ii]	–	N/A	N/A	–	24,200	–	7.00%	–	8.50%

(ii) Prior to (i) above, the commercial investment property was pledged (first ranking mortgage) to secure borrowings of the APN Nowra Property Fund, at the time a wholly owned subsidiary of the Group (note 16).

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13.2 Lease as lessor

The Company leased out its investment property under a long-term operating lease. The future minimum lease payments receivable under this non-cancellable lease were as follows:

Non-cancellable operating lease commitments:	Less than 1 year $'000	1-5 years $'000	Longer than 5 years $'000	Total $'000
2019 Lease receivable	–	–	–	–
2018 Lease receivable	1,758	8,789	12,496	23,043

Recognition and measurement

Investment properties (i.e. properties held to earn rental income and/or for capital appreciation) are initially stated at cost, including transaction costs. Subsequent to initial recognition, investment properties, including investment properties held for sale, are measured at fair value with any gains or losses arising on re-measurement recognised in profit or loss.

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value and all applicable regulations (Corporations Act, ASIC) and relevant Accounting Standards are complied with.

The Group's investment properties are independently valued on a periodic basis by an independent professionally qualified Valuer who holds a recognised relevant professional qualification and has specialised expertise in the class of investment properties being valued.

Internal valuations are performed by the Group's internal property team and reviewed and accepted by the Board.

The adopted fair value is generally the mid-point of the 'Income Capitalisation' and 'Discounted Cash Flow' valuations. These valuations are determined by using appropriate capitalisation rates, discount rates and terminal yields based on comparable market evidence.

Derecognition

An investment property is derecognised on disposal, or when no future economic benefits are expected, from use or disposal. Gains or losses arising from derecognition of the property, measured as the difference between the net disposal proceeds and its carrying amount, are recognised in profit or loss when the asset is derecognised.

Capital Structure, Financing and Risk Management

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to shareholders via dividends and earnings per share.

14. Dividends

	2019		2018	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Recognised amounts:				
Interim dividend: Fully franked at a 27.5% (2018: 30.0%) tax rate	1.250	3,922	1.250	3,922
Unrecognised amounts:				
Final dividend: Fully franked at a 27.5% tax rate (2018: 30.0%)	0.675	2,118	1.000	3,137
Final dividend: Unfranked	0.825	2,588	–	–
Total unrecognised final dividend amounts	1.500	4,706	1.000	3,137

The directors have declared for the year ended 30 June 2019 a final dividend of 1.50 per share, comprising a fully franked final dividend of 0.675 cents per share and unfranked dividend of 0.825 cents per share (2018: fully franked final dividend of 1.00 cents per share). This will be paid on 26 September 2019 to those investors registered on 9 September 2019.

	Company	
	2019 $'000	2018 $'000
Adjusted franking account balance	818	1,130
Impact on franking account balance of dividends not recognised	(803)	(1,344)
	15	(214)

15. Earnings per share

	2019	2018
Basic earnings per share (cents per share)		
From continuing operations	4.79	4.48
From discontinued operations	–	–
	4.79	4.48
Diluted earnings per share (cents per share)		
From continuing operations	4.67	4.39
From discontinued operations	–	–
	4.67	4.39

15.1 Basic earnings per share

	2019 $'000	2018 $'000
The earnings used in the calculation of basic earnings per share is as follows:		
Profit for the year attributable to equity holders of the parent	14,533	13,565
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(10)	(7)
Adjustments to exclude treasury share dividends paid where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests	(447)	(397)
Earnings used in the calculation of basic EPS from continuing operations	14,076	13,161

15.2 Diluted earnings per share

	2019 $'000	2018 $'000
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	14,076	13,161
Adjustments to exclude treasury share dividends paid that are dilutive where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests	168	139
Earnings used in the calculation of diluted EPS from continuing operations	14,244	13,300

15.3 Weighted average number of shares (Basic and Diluted earnings per share)

	2019 '000	2018 '000
Basic EPS - Weighted average number of ordinary shares used in the calculation	293,891	293,891
Shares deemed to be issued for no consideration in respect of employee options	10,894	9,052
Diluted EPS - Weighted average number of ordinary shares used in the calculation	304,785	302,943
The following potential ordinary shares are not dilutive and are therefore are excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:		
Share options	12,402	12,845

16. Borrowings

	2019 $'000	2018 $'000
Secured – at amortised costs		
Secured bank loans (i)	–	10,530
Unamortised borrowing costs	–	(39)
Secured bank loans (ii)	6,004	6,004
	6,004	16,495
Disclosed in the financial statements as:		
Current financial liabilities – Borrowings	6,004	–
Current financial liabilities – Borrowings associated with Investment Property – held for sale (i)	–	10,491
Non-Current financial liabilities – Borrowings	–	6,004
	6,004	16,495
Total facilities available:		
Secured bank loans	8,000	18,530
Business card facility	200	200
Bank guarantee	500	500
	8,700	19,230
Facilities utilised at balance date:		
Secured bank loans	6,004	16,534
Business card facility	147	149
Bank guarantee	500	500
	6,651	17,183
Facilities not utilised at balance date:		
Secured bank loans	1,996	1,996
Business card facility	53	51
Bank guarantee	–	–
	2,049	2,047

During the period, the Groups' loans were:-

(i) The $10,530,000 bill acceptance/discount facility was de-recognised on the 8 November 2018 as a result of the Group losing control of the APN Nowra Property Fund following the successful completion of its establishment and capital raising offer. Prior to this date the borrowings were secured via a first ranking mortgage over Lot 2, 190-198 Princess Highway, South Nowra, NSW, the commercial investment property owned by the APN Nowra Property Fund (refer note 13). The debt facility contained both financial and non-financial covenants and undertakings that were customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the facility agreement) that applied to the Group are as follows:

	2019	2018
Loan To Value ratio will not exceed 50% (2018: 50%)	–	43.5%
Interest Cover Ratio will not fall below 2.0 times (2018: 2.0 times)	–	4.69 times

(ii) This $8,000,000 bank loan facility is repayable in March 2020 and is secured by other financial assets with carrying amount of $72,797,000 as disclosed in note 10 (2018: $61,790,000). As at balance date, this facility is drawn to $6,003,500, with a weighted average effective interest rate of 5.39% per annum (2018: 6.18%). The debt facility contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the facility agreement) that apply to the Group are as follows:

	2019	2018
Loan To Value ratio will be less than 35% of the market value of the other financial assets pledged as security	8.3%	9.7%
Distribution Cover Ratio will not fall below 2.0 times	11.08 times	11.98 times

Recognition and measurement

All borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit and loss when the liability is derecognised.

Where borrowing costs are directly attributable to the acquisition or construction of a qualifying asset they are capitalised as part of the acquisition cost of that asset.

17. Issued capital

	Number of shares '000	$'000
Balance at 1 July 2017	313,743	102,879
Share options exercised by employees	–	3
Balance at 30 June 2018	313,743	102,882
Share options exercised by employees	–	3
Balance at 30 June 2019	313,743	102,885

The nature of the Group's issued capital

Issued capital is fully paid, has no par value, carries one vote per share and the right to dividends. Equity instruments issued by the Group are recorded at the proceeds received, net of directly incurred issue costs.

Changes in issued capital occurred during the period, as follows:-

- There were no shares cancelled (2018: nil) under the APN Employee Share Plan.

At 30 June 2019, fully paid ordinary shares of 313,742,812 (2018: 313,742,812) included 19,774,796 (2018: 19,777,461) treasury shares relating to Employee Share Plans.

18. Reserves

	Equity compensation reserve	
	2019 $'000	2018 $'000
Balance at beginning of financial year	4,810	4,089
Share-based payment	461	721
Balance at end of financial year	5,271	4,810

The nature and purpose of reserves

Equity compensation reserve

The equity compensation reserve is used to recognise the value of share options issued to key management personnel and employees under long term share based incentive plans. Amounts are transferred out of the reserve to issued capital when all options are exercised and all loans outstanding are repaid. Further information about share-based payments to employees is made in note 27.

19. Capital management

The Group aims to meet its strategic objectives and operational requirements and to maximise its returns to shareholders through the appropriate use of debt, equity, reserves and retained earnings (i.e. capital) while noting the additional risks of debt. In determining the optimal capital structure, the Group considers a range of factors including its diversified income sources, operating cost structure, commitments, market conditions and the overall level of debt compared to its gross assets. The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group comprises issued capital (note 17), reserves (note 18), retained earnings (see statement of changes in equity) and borrowings (note 16). The Board is responsible for reviewing and monitoring the Group's capital structure on an on-going basis through gearing ratios (refer table below), debt covenant calculations and cashflow projections. The Group manages its capital structure through various methods including adjusting dividends paid, raising / repaying debt, issuing / buying-back shares and realising assets.

As a regulated fund manager, applicable entities in the Group are also subject to a number of prudential financial requirements. APN Funds Management Limited, in its capacity as a responsible entity and/or custodian is required at all times to maintain Net Tangible Assets in excess of $10 million (of which $5 million must be in cash or cash equivalents). Compliance with these prudential financial requirements is monitored continuously by the Board and the independent board of APN Funds Management Limited.

At 30 June 2019 the gearing ratio, calculated as debt to shareholders equity, was 4.7% (2018: 13.8%). This is calculated as follows:

	2019 $'000	2018 $'000
Debt (note 16)	6,004	16,495
Equity (includes share capital, reserves and retained earnings)	127,810	119,872
Debt to equity ratio	4.7%	13.8%

20. Financial risk management

20.1 Financial risk management objectives

The Group holds financial instruments for financing, operational and risk management purposes. Exposure to credit, interest rate, liquidity, currency and equity price risks is managed in accordance with the Group's financial risk management policy. The objective of this policy is to support the delivery of the Group's financial targets whilst protecting its long term financial security. The Board has the primary responsibility for establishing a sound framework of risk management and audit oversight.

20.2 Market risks

The main risks arising from the Group's financial instruments are credit, liquidity, and equity price risk. The Group uses different strategies and financial instruments to measure and manage these risks including monitoring ageing analyses and concentration of counterparties (credit risk), cash flow forecasting, including sensitivity analysis, and interest rate hedging instruments (liquidity risk), and monitoring investments, equity and property markets (equity price risk).

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

20.3 Equity price risks

The Group is exposed to equity price risk. This arises from investments held by the Group and classified as at fair value through profit or loss.

The exposure to equity price risk at the end of the reporting period, assuming equity prices had been 10% higher or lower while all other variables were held constant, would increase/decrease net profit by $8,959,000 (2018: $7,154,000).

20.4 Liquidity risk management

The Board has approved a 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 liquid asset reserves, continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

At 30 June 2019, the terms of the Group's borrowing facilities are disclosed in note 16.

The table below presents the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts presented are the contractual undiscounted cash flows and include both interest and principal cash flows but are presented before consideration of the operating cashflows generated by the Group.

	Weighted average effective interest rate %	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5+ years $'000	Total $'000
2019						
Non-interest bearing – trade and other payables		3,453	–	–	–	3,453
Bank loans	5.39%	6,004	–	–	–	6,004
		9,457	–	–	–	9,457
2018						
Non-interest bearing – trade and other payables	–	2,928	–	–	–	2,928
Bank loan	4.70%	–	6,004	10,530	–	16,534
		2,928	6,004	10,530	–	19,462

20.5 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.

Credit risk arises in respect to cash and cash equivalents, deposits with financial institutions and trade and other receivables (financial assets). The Group has no derivative financial instrument exposure.

The Board has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all non-related party customers requiring credit over a certain amount. The Group does not generally require collateral in respect of financial assets.

Cash and cash equivalents and deposits are limited to high quality financial institutions. The Group uses publicly available financial information and its own trading records to rate its non-related party and related party customers.

At the reporting date there were no significant concentrations of credit risk except those referred to in note 31. Ongoing credit evaluation is performed on the financial condition of customers and where appropriate an allowance for doubtful debts is raised. For further details regarding trade and other receivables refer to note 24.

20.6 Interest rate risk management

The Group is exposed to interest rate risk. This arises from loans, short term deposits and cash held by the Group.

For the purposes of managing interest rate risk, the Group may enter into interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. At 30 June 2019 there are no interest rate swaps in place (2018: Nil).

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk section of this note.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used to assess the reasonableness of a possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's net profit for the year ended 30 June 2019 would increase/decrease by $35,000 (2018: $6,000).

20.7 Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments that are measured and carried at fair value or fair value less estimated costs of disposal for financial instruments held for trading (sale), the Group uses the following to categorise the method used:

- **Level 1:** the fair value is calculated from quoted prices (unadjusted) in active markets for identical assets or liabilities, and include listed property securities traded on the Australian Securities Exchange (ASX).
- **Level 2:** the fair value is estimated from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** the fair value is estimated from unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. For the Group this includes investments in unlisted funds whose primary assets are direct property assets. For more details of the Group's unlisted investments, refer note 31.

Key estimates and assumptions – Valuation of Level 3 financial instruments

Management estimates and assumptions are required to determine the fair value of investments in unlisted funds. In determining the fair value of such investments, the latest available prices (net tangible asset values) provided by the product issuer is the primary source of information used.

In recent times the liquidity of both unlisted funds and their underlying investments has decreased, limiting the availability of observable market transactions for similar financial instruments. Accordingly, the valuation of these investments is subject to greater uncertainty and requires greater judgement than would be the case for level 1 and 2 financial instruments. Note 20.3 details the Group's sensitivity to equity price risk across financial instruments classified in Levels 1 – 3.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(a) Fair value of financial instruments carried at amortised cost

The directors consider that the carrying amounts of financial assets and financial liabilities that are not measured at fair value in the financial statements approximate their fair values.

(b) Fair value measurements recognised in the statement of financial position

Financial assets at fair value through profit or loss	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019					
Financial assets	10	114,756	–	12,716	127,472
2018					
Financial assets	10	98,438	–	3,763	102,201

During the prior year, co-investments previously classified at Level 3 were transferred to Level 1 as the fair value measurement for these investments is now derived from quoted prices in an active market. The following table reconciles the movement of Level 3 financial assets for the year:

Fair value through profit or loss	2019 $'000	2018 $'000
Balance at beginning of financial year	3,763	15,603
Total gains/(losses) recognised in profit or loss (note 7)	(947)	440
Purchases	19,200	–
Disposals	(7,320)	–
Return of capital received	(1,980)	(770)
Transfer out of Level 3	–	(11,510)
Balance at end of financial year	12,716	3,763

21. Commitments

Commitments in relation to non-cancellable operating leases, at call investment commitments and capital expenditure contracted but not provided for in the financial statements are payable as follows:

	Less than 1 year $'000	1-5 years $'000	Longer than 5 years $'000	Total $'000
2019				
At call investment commitments:				
Investment commitments to APN Development Fund No.2	208	–	–	208
Non-cancellable operating lease commitments:				
Property lease	534	2,438	–	2,972
	742	2,438	–	3,180
2018				
At call investment commitments:				
Investment commitments to APN Development Fund No.2	381	–	–	381
Non-cancellable operating lease commitments:				
Property lease	187	2,892	79	3,158
	568	2,892	79	3,539

22. Contingents assets and liabilities

22.1 Contingent assets

Leasing fees from APN Industria REIT

The Group provides leasing services to its managed funds and was entitled to charge market-based fees amounting to $517,000 (2018: $517,000). While APN Funds Management Limited remains the responsible entity of APN Industria REIT, these fees will not be charged.

Performance entitlements

The Group may be entitled to conditional performance fees from the Funds that it manages. The performance fee entitlements are generally based on the outperformance of a Funds' equity internal rate of return ('IRR') above a set hurdle rate as documented in the relevant Product Disclosures Statement or Information Memorandum. The ability to earn performance fee entitlements at reporting date that is possible is as follows:

Performance entitlement from APN Steller Development Fund

APN Funds Management Limited, a wholly owned subsidiary of the Group and fund manager of APN Steller Development Fund (the Fund), has been issued 'B' class units, which carry conditional performance entitlements to 25% of the outperformance of the Fund's equity IRR above a hurdle rate of 15%. This performance fee entitlement arises on the realisation of all Seed Projects and at the conclusion of the Fund, or earlier if APN Funds Management Limited is removed as trustee of the Fund other than because of breach or other cause related event, and the Fund declaring a 'B' class unit distribution.

At 30 June 2019, the Fund has not declared a 'B' class unit distribution as it is still in the process of winding up. Based on the financial performance of the Fund as at reporting date, a potential net performance fee entitlement (to be declared as a fully franked dividend) is currently estimated at between $160,000 to $200,000. This amount has not been recognised in the financial statements.

22.2 Contingent liabilities

Responsible entity and/or Trustee of managed investment schemes

APN Funds Management Limited, a wholly owned subsidiary of the Company, enters into many contracts in its capacity as responsible entity and/or trustee of managed investment schemes and trusts ("Schemes"). APN Funds Management Limited's liability in respect of these contracts is generally limited to its right to recover any payments made out of the assets of the applicable Scheme. These rights are asserted in a Limitation of Liability clause that is included in contracts relating to Schemes.

In circumstances where a Limitation of Liability clause is not included in a Scheme contract and the scheme has insufficient assets to reimburse APN Funds Management Limited, then APN Funds Management Limited may incur a financial loss. The Directors are not aware of any circumstances where a loss resulting from these circumstances is likely to occur.

Efficiency of Operation

This section presents the Group's working capital position and the efficiency in which it converts operating profits into cash available for shareholders / the reinvestment back into the operations of the Group.

23. Cash and cash equivalents

	2019 $'000	2018 $'000
Reconciliation of cash and cash equivalent		
Cash and bank balances available to the Group	14,994	14,673
Cash balances held in trust for its managed funds / investors	678	313
Total cash and cash equivalents	15,672	14,986
Reconciliation of profit after tax to net cash flows from operating activities		
Profit / (loss) for the year	14,533	13,565
Add / (less) non-cash items:		
Depreciation and amortisation	141	204
Amortisation of borrowings costs	20	35
(Gain) / Loss on disposal of co-investments	–	(3)
Loss on disposal of investment properties	1,383	–
Write down of property, plant and equipment	–	26
Provision for employee benefits	1,423	1,947
Provision for straight-line lease expense recognition	223	413
Unwinding of onerous contract provision	–	(163)
Doubtful debts (recovery) / expense	–	(15)
Equity-settled share based payment transactions	461	721
Gain on revaluation of investments	(9,707)	(7,993)
	8,477	8,737
(Increase) / decrease in trade receivables	684	(1,048)
(Increase) / decrease in other debtors	9	(24)
(Increase) / decrease in accrued income and prepayments	(269)	625
(Decrease) / increase in deferred tax liabilities	3,580	4,007
(Decrease) / increase in provisions	(1,574)	(1,236)
(Decrease) / increase in payables	782	83
(Decrease) / increase in provision for income tax	(572)	(847)
	11,117	10,297

	2019 $'000	2018 $'000
Reconciliation of liabilities arising from financing activities		
Borrowings at beginning of financial year (note 16)	16,495	10,456
Derecognition of borrowings on loss of control of a subsidiary (note 30)	(10,511)	–
Net cash inflow from financing activities	–	6,004
Non-cash changes: Amortisation of borrowing costs	20	35
Borrowings at end of financial year (note 16)	6,004	16,495

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.

Recognition and measurement

Cash comprises cash on hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

Application, redemption and unclaimed monies held by the Group pending issue, redemption of units or payment of distributions in respect to the Group's managed investment schemes ('Schemes') are held in trust for the sole benefit of Scheme investors and cannot be used for any other purpose by the Group.

24. Trade and other receivables

	2019 $'000	2018 $'000
Current financial assets		
Trade receivables	2,012	3,987
Allowance for doubtful debts (a)	–	–
	2,012	3,987
Accrued income	3,175	1,775
Prepayments	367	415
Current trade and other receivables	5,554	6,177

(a) Movement in the allowance for doubtful debts in respect of:

	Trade receivable: Doubtful debts allowance	
	2019 $'000	2018 $'000
Balance at beginning of financial year	–	(43)
Impairment losses recognised	–	–
Impairment losses written-off	–	43
Balance at end of financial year	–	–

(b) Trade receivables past due but not impaired:

	2019 $'000	2018 $'000
31 – 60 days	–	–
61 – 90 days [i]	–	54
91 – 120 days [i]	–	621
+ 121 days [i]	–	409
	–	1,084

(i) These amounts were due from a fund that the Group manages. In evaluating the recoverability of these amounts, the Group has considered the credit risk associated with this fund and determined these amounts are not impaired.

Recognition and measurement

Trade receivables

Trade receivables are initially recognised at fair value (including GST) and subsequently amortised cost using the effective interest method, less an allowance for impairment. Credit terms are generally up to 30 days, with amounts overdue monitored on an on-going basis. Verification procedures are applied where credit is extended to non-related parties. Collateral is not held over trade receivables as the counterparties are primarily the Group's managed funds.

Loans

Loans are non-derivative financial assets that have fixed or determinable cashflows that are not quoted in active markets. Loans are initially recognised at fair value and subsequently amortised cost using the effective interest method, less an allowance for impairment. Loans are only generally made to the Group's managed funds and therefore are not secured by collateral. Detailed risk assessment procedures are performed before loans are extended to non-related parties.

Impairment

The impairment allowance for financial assets (other than those measured at fair value through profit and loss) is measured using the simplified approach based on a lifetime expected credit loss. No impairment allowance was recognised in the current year (2018: Impairment allowance recovered $15,000).

25. Trade and other payables

	2019 $'000	2018 $'000
Current financial liabilities		
Trade payables	1,914	1,374
Other creditors and accruals	1,539	1,554
	3,453	2,928

Recognition and measurement

Trade and other payables include GST where applicable and are non-interest bearing. The average credit period on purchases of services is 30 days. The Group has financial management policies in place to ensure that all payables are paid within the credit timeframe.

26. Provisions

	2019 $'000	2018 $'000
Current liabilities		
Employee benefits	2,819	2,387
Other (i)	524	173
	3,343	2,560
Non-Current liabilities		
Employee benefits	402	1,333
Lease incentives	659	436
	1,061	1,769

	Lease incentives 2019 $'000	Employee benefits 2019 $'000	Other 2019 $'000
Balance at beginning of financial year	436	3,720	173
Addition / (writeback) during the year	223	1,479	351
Payment / utilisation during the year	–	(1,978)	–
Balance at end of financial year	659	3,221	524

(i) Includes $351,000 (2018: Nil) in relation to potential rebates payable to third parties in respect of the managed investment schemes that the Group manages.

Recognition and measurement

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. Provisions are determined by discounting the estimated cashflows to be incurred by the Group to settle the obligation, taking into account the obligations, risks and uncertainties.

Employee benefits

The provision for employee benefits represents wages and salaries, short and long term cash incentives, annual leave and long service leave accruing to employees as at the reporting date. The provision for annual leave and long service leave is measured as the present value of expected future payments using the government bond discount rate that most closely matches the timing of the expected future payments.

Lease incentives

The provision for lease incentives represents the unamortised balance of incentives received to enter into an operating lease and lease liabilities arising on straight-line lease expense recognition for operating leases with fixed annual increases. The incentive received and lease liability recognised are expensed on a straight-line basis over the term of the operating lease.

Other Notes

27. Share-based payments

The Group provides equity settled benefits to employees, including key management personnel, through share based incentives. Employees are paid for their services or incentivised for their performance in part through granting shares or rights over shares in the Group. As the Group does not require reimbursement for the cost of the grant, this is deemed a contribution by the Group in its capacity as owner. The expense arising from these grants is shown in note 7.

Recognition and measurement

The cost of share based payments is measured at their fair value at the grant date. Fair value is determined using the Black-Scholes option pricing model, based on the director's best estimates of the term of the grant (vesting period), the effects of any market and service conditions (but not performance conditions) and other behavioural considerations. The fair value determined is expensed to the profit and loss and recognised in the equity compensation reserve on a straight-line basis over the vesting period, based on the estimated number of shares that will eventually vest. This estimate is reassessed at each reporting date, with any resultant change recognised on a straight-line basis in the profit and loss and equity compensation reserve over the remaining vesting period.

27.1 Additional information on share based incentive plans

APN Employee Performance Securities Plan (EPSP) / APN Timothy Slattery Executive Share Plan (TSESP)

The EPSP / TSESP are offered to selected employees who are granted the right to acquire shares at a nominated exercise price, subject to agreed service and performance conditions (i.e. vesting conditions). Employees are issued the shares once vesting conditions are met, with the issue price fully financed by a limited recourse loan provided by the Group. Dividends are for the benefit of the employee. Employees are not permitted to deal in the shares until the limited recourse loan has been repaid. Shares issued under the EPSP / TSESP are characterised as share options.

During the year, there was no share options issued under the EPSP (2018: 250,000 share options were issued and 250,000 share options were cancelled due to termination of employment). At 30 June 2019, the fair value of the share options issued and included in the equity compensation reserve is $3,589,290 (2018: $3,128,931).

APN Employee Share Plan (ESS)

The last issue under the ESS plan was in November 2007. Under the plan employees were invited to acquire shares issued at market price, fully financed by a limited recourse loan provided by the Group. Depending on the terms of the invitation, dividends were either for the benefit of the employee or applied to the repayment of the limited recourse loan. Shares issued under the ESS are characterised as share options.

During the year, there were no shares cancelled (2018: nil) in accordance with the terms of the ESS. At 30 June 2019, the fair value of all existing share options issued and included in equity compensation reserve was $1,188,378 (2018: $1,188,378).

Clive Appleton Share Trust (CAST)

The last issue under the CAST plan was in September 2004. Shares were issued to former managing director, Clive Appleton, on terms and conditions that are the same in all material respects with the ESS outlined above.

At 30 June 2019, the fair value of share options issued and included in the equity compensation reserve was $104,000 (2018: $104,000). The shares are fully vested and can be exercised at any time.

APN Employee Share Gift Plan (ESGP)

Under the ESGP, the Group periodically offers all eligible permanent employees the opportunity to receive, for no consideration, up to $1,000 in shares at market value. Dealing in shares issued under this plan is restricted until the earlier of three years from issue date or the date the employee ceases employment.

At 30 June 2019, $45,000 (2018: $45,000) has been recognised as employee expenses and included in the equity compensation reserve.

27.2 Share option arrangements

The following share option arrangements were in existence during the financial year:

Option series	Plan	Number	Grant date, Modification date	Exercise price	Fair value per option at grant date	Fair value per option revalued at modification date	Fair value per option at modification date
(1) 10 September 2004	CAST	3,900,001	10.09.2004	$0.31	$0.01	N/A	N/A
(2) 20 June 2005	ESS	162,000	20.06.2005	$1.00	$0.01	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.01	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.30	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.45	N/A	N/A
(5) 23 November 2007	ESS	20,000	23.11.2007	$2.87	$0.78	N/A	N/A
(5) 23 November 2007	ESS	20,000	23.11.2007	$2.87	$0.92	N/A	N/A
(11) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.08	N/A	N/A
(12) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.12	N/A	N/A
(13) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.14	N/A	N/A
(15) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.07	$0.05	$0.05
(16) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.09	$0.05	$0.06
(17) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.09	$0.05	$0.08
(18) Issued 7 December 2016, modified 1 May 2018	EPSP	833,333	07.12.2016, 01.05.2018	$0.00	$0.37	$0.41	$0.39
(19) Issued 7 December 2016, modified 1 May 2018	EPSP	833,333	07.12.2016, 01.05.2018	$0.00	$0.35	$0.39	$0.37
(20) Issued 7 December 2016, modified 1 May 2018	EPSP	833,334	07.12.2016, 01.05.2018	$0.00	$0.35	$0.39	$0.36
(21) Issued 22 December 2016, modified 30 April 2018	EPSP	1,250,000	22.12.2016, 30.04.2018	$0.40	$0.07	$0.03	$0.06
(22) Issued 22 December 2016, modified 30 April 2018	EPSP	1,250,000	22.12.2016, 30.04.2018	$0.40	$0.09	$0.06	$0.07
(23) Issued 22 December 2016, modified 30 April 2018	EPSP	1,250,000	22.12.2016, 30.04.2018	$0.40	$0.09	$0.06	$0.07
(24) Issued 12 September 2017, modified 30 April 2018	EPSP	83,333	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.06
(25) Issued 12 September 2017, modified 30 April 2018	EPSP	83,333	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.07
(26) Issued 12 September 2017, modified 30 April 2018	EPSP	83,334	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.07

Series (15), (18), (21) & (24): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied. or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle of 2.80 cents per share (performance criteria) has been achieved. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2018 from 30 November 2019 for Series (15) & (18) / 30 November 2020 for Series (21) & (24) to 31 December 2020.

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Series (16), (19), (22) & (25): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 2.80 cents per share (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.25 cents per share at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2018 from 30 November 2019 for Series (16) & (19) / 30 November 2020 for Series (22) & (25) to 31 December 2020.

Series (17), (20), (23) & (26): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.25 cents per share (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.70 cents per share at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended or agreed to be extended* on the 30 April 2018/1 May 2018/21 November 2018 from 30 November 2019 for Series (17) & (20) / 30 November 2020 for Series (23) & (26) to 31 December 2020.

*Approved at APN's Annual General Meeting on 21 November 2018.

Except as noted above all other share options are fully vested and can be exercised at any time.

Unvested share options expire on the cessation of the individual employees' employment with APN. Any loan balance outstanding on vested share options is repayable no later than 12 months (if required to serve a notice period) or 18 months (if not required to serve a notice period) from the date the employee ceases to be an APN employee.

The modification of options granted as noted resulted from extending the vesting date of the original award from 30 November 2019/30 June 2020 to 31 December 2020, with all other performance criteria remaining the same.

27.3 Fair value of share options granted in the year

The weighted average fair value of the share options granted/modified during the financial year was $nil (2018: $0.12). Share options were priced using a Black-Scholes option pricing model using the following inputs:

Option series	Grant date share price	Exercise price	Expected volatility	Option life	Dividend yield	Risk-free interest rate
1	$0.31	$0.31	25.0%	2 years	–	5.15%
2	$1.00	$1.00	25.0%	2 years	–	5.15%
3	$1.95	$1.95	32.3%	3 years	–	5.63%
5	$2.87	$2.87	27.4%	3 – 4 years	–	6.15 – 6.34%
11	$0.26	$0.26	59.8%	2 years	–	2.16%
12	$0.26	$0.26	83.6%	4 years	4.81%	2.98%
13	$0.26	$0.26	91.0%	6 years	4.81%	3.45%
15	$0.40	$0.40	13.4%	2 years	4.38%	1.83%
16 & 17	$0.40	$0.40	15.3%	3 years	4.38%	1.97%
18	$0.40	$0.00	14.4%	2 years	4.38%	1.77%
19 & 20	$0.40	$0.00	12.9%	3 years	4.38%	1.90%
21	$0.40	$0.40	13.4%	2 years	4.38%	1.98%
22 & 23	$0.40	$0.40	15.3%	3 years	4.38%	2.11%
24, 25 & 26	$0.41	$0.40	11.8%	4 years	4.88%	2.04%
15, 21 & 24 (modified)	$0.41	$0.40	10.5%	2 years	5.43%	2.09%
16, 22 & 25 (modified)	$0.41	$0.40	10.7%	3 years	5.43%	2.13%
17, 23 & 26 (modified)	$0.41	$0.40	11.4%	3 years	5.43%	2.19%
18 (modified)	$0.41	$0.00	6.5%	1 years	5.43%	2.15%
19 (modified)	$0.41	$0.00	9.9%	2 years	5.43%	2.06%
20 (modified)	$0.41	$0.00	10.7%	3 years	5.43%	2.13%

27.4 Movements in share options and balance outstanding

	2019		2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Opening balance	33,777,460	$0.35	33,779,913	$0.35
Granted	–	–	250,000	$0.40
Forfeited	–	–	(250,000)	$0.40
Exercised	(2,665)	$1.00	(2,453)	$1.00
Closing balance	33,774,795	$0.35	33,777,460	$0.35
Exercisable at end of the financial year [(i)]	19,774,796	$0.37	19,777,461	$0.37

(i) Shares have been issued and are subject to limited recourse loans

Unvested share options have a weighted average remaining contractual life of 549 days (2018: unvested share options had a weighted average remaining contractual life of 914 days). Vested share options with limited recourse loans outstanding have no maturity date and thus have an indefinite contractual life.

27.5 Share options exercised during the year

Options series	Number exercised	Exercise date	Share price at exercise date
2019			
(2) 20 June 2005	1,184	27 September 2018	$0.45
(2) 20 June 2005	1,480	15 March 2019	$0.45
2018			
(2) 20 June 2005	920	28 September 2017	$0.41
(2) 20 June 2005	1,533	16 March 2018	$0.43

28. Key management personnel compensation

Details of key management personnel compensation are disclosed in the audited Remuneration Report and are set out below:

	2019 $	2018 $
Short-term employee benefits	2,152,683	2,319,479
Post-employment benefits	70,583	68,342
Other long-term benefits	34,448	30,438
Share-based payment expense	363,383	606,059
	2,621,097	3,024,318

29. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2019 %	2018 %
Parent entity			
APN Property Group Limited (APN PG) (i)	Australia		
Subsidiaries			
APN Funds Management Limited (APN FM) (ii), (iii)	Australia	100%	100%
APN Development and Delivery Pty Limited (APN DD) (iii)	Australia	100%	100%
APN Property Group Nominees Pty Limited (iii)	Australia	100%	100%
Australian Property Network (Vic) Pty Limited (iii) (vii)	Australia	–	100%
APN No 8 Pty Limited (iii) (viii)	Australia	–	100%
APN Asset Services Pty Ltd (iii)	Australia	100%	100%
Industria Company No.2 Pty Ltd (iii)	Australia	100%	100%
APN Nowra Property Fund (NPF) (iii) (iv)	Australia	–	100%
Convenience Retail Management Pty Limited (CRM) (iii)	Australia	100%	100%
APN RE Limited (v) (iii)	Australia	100%	–
APD Trust (vi)	Australia	100%	–

All entities use the functional currency of their country of incorporation.

(i) APN PG is the head entity within the tax-consolidated group.
(ii) APN PG was incorporated on 1 July 2004. On 10 September 2004, APN PG acquired APN DD and APN FM. Due to the reverse acquisition accounting treatment, APN FM is deemed to be the accounting parent.
(iii) These companies are members of the tax-consolidated group.
(iv) APN PG lost control of NPF upon the successful completion of capital raising offer on 8 November 2018.
(v) A newly incorporated company on 19 July 2018.
(vi) A newly incorporated registered managed investment scheme on 12 October 2018.
(vii) This company was deregistered on 26 June 2019.
(viii) This company was deregistered on 30 June 2019.

30. Disposal of Subsidiaries

On 8 November 2018, the Group lost control of APN Nowra Property Fund (previously APN Convenience Retail Property Fund) upon the successful completion of the capital raising offer announced in late June 2018.

30.1 Consideration received

	2019 $'000
Gross consideration received	
Repayment of intercompany loan after divestment	9,311
Payment for net assets	3,070
	12,381

30.2 Analysis of assets and liabilities over which control was lost

	2019 $'000
Cash and cash equivalents	169
Trade receivables and other receivables	40
Investment Properties – held for sale (note 13)	24,200
Borrowings associated with Investment Property – held for sale (note 16 / note 23)	(10,511)
Other payables	(117)
	13,781

30.3 Loss on disposal

	2019 $'000
Consideration received	12,381
Net assets divested	(13,781)
Net transaction costs incurred	(25)
Loss on disposal (note 4 / note 7)	(1,425)

30.4 Net cash flow

	2019 $'000
Consideration received (net of transaction costs incurred)	12,356
Less: cash and cash equivalents divested	(169)
	12,187

Included in the net profit for the period up to the loss of control on 8 November 2018 is revenue totaling $645,000 and net profit after tax of $692,000.

31. Related party transactions

The parent entity in the Group is APN Property Group Limited (APN). APN is incorporated in Australia. Details of transactions between the Group and other related parties are disclosed below.

31.1 Transactions with key management personnel

(a) Loans to management personnel

There were no loans to management personnel as at 30 June 2019 (2018: $nil).

(b) Other transactions with key management personnel:

The APN employee benefit program was introduced in 2018 to provide existing eligible employees with fee rebates on selected Funds' Management Expense Ratios. The fee rebates are paid in the form of additional units in the applicable Fund (except for APN Property for Income Fund No.2) and the Group reserves the right to vary or terminate the APN employee benefit program at any time at its sole and absolute discretion. Key management personnel holdings (either directly, indirectly or beneficially) and the benefits received that are subject to this arrangement are outlined as follows:

Key management personnel holdings	Name of fund	During the year		Balance at 30 June 2019 No. of units
		Fee rebates $	Units received No.	
Christopher Aylward	APN Asia REIT Fund	3,594	2,049	500,356
Clive Appleton	APN AREIT Fund	5,035	2,921	389,211
Clive Appleton	APN Asia REIT Fund	3,025	1,689	196,806
Clive Appleton	APN Property for Income Fund No.2	106	–	9,077
Howard Brenchley	APN AREIT Fund	1,266	735	97,878

31.2 Equity interests and transactions with related parties

Details of the percentage of ordinary shares/units held in subsidiaries are disclosed in note 29. Other related parties for the Group are the managed investment schemes (Schemes) it manages, as detailed in note 4.

Transactions between the Company and its subsidiaries, together with transactions between the Group and its other related parties are set out below:

	Parent		Subsidiaries		Total	
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Subsidiaries						
Dividends	10,000,000	10,000,000	–	–	10,000,000	10,000,000
Transfer of investment (i)	–	8,540,000	–	–	–	8,540,000
Finance income (ii)	250,027	702,000	–	–	250,027	702,000
Equity-settled share based payment transactions	252,312	377,052	–	–	252,312	377,052
Other related parties from continuing operations						
Fund management fees	–	–	14,522,586	13,781,960	14,522,586	13,781,960
Performance and transaction fees	322,507	670,000	–	–	322,507	670,000
Asset and project management fees	268,157	–	–	126,530	268,157	126,530
Registry and other income	2,289,288	–	–	2,207,275	2,289,288	2,207,275
Distribution income	7,075,276	5,988,368	909,066	791,037	7,984,342	6,779,405
Other related parties from discontinued operations						
Management fees	–	–	–	13,746	–	13,746
Registry and other income	–	–	–	5,000	–	5,000

(i) In the prior year, the Company paid $8,540,000 to acquire 3,500,000 units in APN Industria REIT from its subsidiaries.
(ii) The loan receivable from this subsidiary is secured against the assets of the entity and has a weighted average effective interest rate of 7.20% (2018: 7.20%).

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Amounts outstanding and doubtful debt provisions between the Company and its subsidiaries, together with amounts outstanding and doubtful debt provisions between the Group and its other related parties are set out below:

	Parent		Subsidiaries		Total	
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Other related parties						
Trade receivables	212,151	798,120	1,799,352	3,188,681	2,011,503	3,986,801

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

Other than the above, all other receivables/payables to subsidiaries/other related parties are unsecured. The amounts outstanding will be settled in cash. No guarantees have been given or received.

Investments

At the end of the reporting period the Group held investments in the following Schemes:

	2019			2018		
	Units No.	Fair value $	Distribution received/ receivable $	Units No.	Fair value $	Distribution received/ receivable $
APN European Retail Property Group	–	–	–	46,366	–	–
APN Development Fund No. 2	2,553,988	1,321,306	–	2,380,952	1,153,571	–
APN Asian REIT Fund	843,261	1,645,371	87,867	754,532	1,210,042	79,923
APN AREIT Fund	17,728	31,184	1,205	–	–	258
APN Asia Pacific REIT Fund	9,161	100	–	9,161	100	–
APN Industria REIT	28,726,235	83,018,819	4,651,197	26,838,913	71,123,119	4,427,027
APN Coburg North Retail Fund	479	479	33	479	479	34
APN Steller Development Fund	2,750,000	–	962,500	2,750,000	2,608,650	–
APN Convenience Retail REIT	9,631,005	30,048,736	2,012,198	9,624,474	26,082,325	1,744,917
Convenience Retail REIT No.2*	–	–	–	–	–	60,850
APN Property Plus Portfolio*	–	–	–	–	–	465,888
APN AREIT PIE Fund	–	–	198	10,696	9,829	508
APN Nowra Property Fund	18,338	18,767	92,085	–	–	–
APN Regional Property Fund	8,148,128	11,375,602	177,059	–	–	–

*In 2018, APN's investment in APN Property Plus Portfolio (renamed to Convenience Retail REIT No.1) and Convenience Retail REIT No.2 were converted to stapled securities in Convenience Retail REIT following its successful ASX IPO on 27 July 2017.

32. Remuneration of auditors

	2019 $	2018 $
Auditor of the parent entity		
Audit or review of the financial report	154,898	147,898
Group restructuring	395,135	–
Other services [(i)]	11,038	18,120
	561,071	166,018

(i) Other services include fees in relation to the audit and compliance audit provided to funds that have been incurred by the Group (2018: Other services include fees in relation to the audit and compliance audit and tax advice provided to funds that have been incurred by the Group).

The auditor of the Group is Deloitte Touche Tohmatsu.

33. Parent entity information

	Company	
	2019 $'000	2018 $'000
Financial position at 30 June 2019		
Current assets	16,678	3,699
Non-current assets	146,359	143,675
Total assets	163,037	147,374
Current liabilities	32,321	24,760
Non-current liabilities	15,078	12,504
Total liabilities	47,399	37,264
Issued capital	122,654	122,651
Retained earnings	(12,287)	(17,351)
Equity compensation reserve	5,271	4,810
Total equity	115,638	110,110
Financial performance for the year ended 30 June 2019		
Profit/(Loss) for the year	12,123	12,721
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	12,123	12,721

Guarantees, contingent liabilities and contractual commitments

As at the end of the reporting period, the Company had provided no financial guarantees in relation to liabilities of its subsidiaries and no contingent liabilities that were required to be disclosed (2018: nil).

As at the end of the reporting year, the Company had no contractual commitments outstanding (2018: none).

Parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements except that its investment in subsidiaries and associates are accounted for at cost.

34. Subsequent events

On 2 July 2019, APN's Chief Financial Officer (Michael Groth) resigned. Accordingly, the payment and/or vesting terms of his short and long term incentive entitlements recognised at reporting date will not be met. Employee benefit costs associated with the short and long term incentive entitlements totalling $1,076,000 (after tax) previously recognised as an expense will be written back to the profit or loss in FY20.

Subsequent to year end, APN has accepted offers to acquire a further $1,710,000 of its investment in APN Regional Property Fund at $1.43 per unit from new and existing investors.

Other than described above, there has been no other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

35. Adoption of new and revised Accounting Standards

New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

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 have been adopted. Their adoption has not had any significant impact on the amounts reported in the financial statements but may affect the accounting for future transactions or arrangements. New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 9 Financial Instruments and related amending Standards
- AASB 15 Revenue from Contracts with Customers and related amending Standards
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

Other than as described below, the application of these standards and amendments is not expected to have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Impact of the application of AASB 9

The Group has applied AASB 9 Financial Instruments (as revised) using the modified retrospective approach and the related consequential amendments to other Accounting Standards for the first time. The requirements under AASB 9 that are applicable to the Group and the impact of its application is disclosed below:

Classification and measurement of financial assets

The directors have reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and have concluded that the application of AASB 9 has had no material impact on the classification or measurement of the Group's financial assets. Financial assets that were measured at fair value through profit or loss (FVTPL) under AASB 139 continue to be measured at fair value under AASB 9 in accordance with the policy outlined in Note 10.

Impairment of financial assets

The directors have reviewed and assessed the Group's existing financial assets and trade receivables for impairment using the AASB 9 expected credit loss model as opposed to the AASB 139 incurred credit loss model and have concluded that the application of AASB 9 has had no material impact on the Group's impairment allowance required for existing financial assets and trade receivables. With effect from 1 July 2018, the Company's new accounting policies in respect to the measurement of impairment of financial assets are disclosed in Note 24.

Impact of the application of AASB 15

The Group has applied AASB 15 Revenue from Contracts with Customers (as amended) using the retrospective approach with practical expedient for the first time in the current year. AASB 15 requires the Group to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. The requirements under AASB 15 that are applicable to the Group and the impact of their application is disclosed below:

Recognition and measurement of revenue:

AASB 15 features a contract-based five-step analysis of transactions to determine when and how much revenue is recognised and has two approaches to recognising revenue (1) at a point in time after the completion of the entity's efforts or (2) over time in conjunction with the entity's efforts toward providing a benefit to the customer, through the delivery of a service.

The directors have reviewed and assessed the Group's recognition and measurement of revenue from 1 July 2018 based on the facts and circumstances that existed from this date and have concluded that the application of AASB 15 has had no material impact on the recognition or measurement of the revenue for the Group as there is no change in the timing of revenue recognition when comparing the previous accounting policies to those now under AASB 15. With effect from 1 July 2018, the Company's new accounting policies in respect to the recognition and measurement of revenue are disclosed in Note 5.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but not yet effective.

Standard	Effective for annual reporting periods beginning on or after
▪ AASB 16 Leases	1 January 2019
▪ AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019
▪ AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements	1 January 2019
▪ Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
▪ AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020
▪ AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
▪ AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020

Other than as described below, the impact on the financial report of the Group from the initial application of the above mentioned Standards and Interpretations has not been assessed at the date of this report:-

- AASB 16 Leases, applying to annual period beginning on or after 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments.

Based on a preliminary analysis of the Group's existing non-cancellable operating leases commitments as at 30 June 2019, the application of AASB 16 will require the recognition, as at 1 July 2019, of a right-of-use asset of approximately $2,619,000 with a corresponding lease liability of approximately $2,619,000 in the Group's statement of financial position. Straight-line lease liabilities and unamortised rent incentives, adjusted for deferred tax, as at 1 July 2019 totalling approximately $478,000 will also be adjusted to opening retained earnings at this date.

The estimated pro-forma impact to the Group's profit or loss is a reduction in net profit after tax of approximately $151,000. This comprises an increase in interest expense of $117,000, depreciation expense of $511,000, partially offset by a reduction in operating lease expense of $451,000 and current tax expense of $26,000.

SUMMARY OF SHAREHOLDERS

Twenty largest holders of quoted equity securities as at 31 July 2019

Rank	Name	No. of fully paid ordinary shares	%
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	51,532,359	16.43
2	HOLUS NOMINEES PTY LIMITED	45,798,688	14.60
3	LAUREN INVESTMENTS PTY LTD	32,751,312	10.44
4	MELBOURNE LIGHT PTY LTD	25,920,004	8.26
5	CS THIRD NOMINEES PTY LIMITED	15,000,000	4.78
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,305,528	2.97
7	APN FUNDS MANAGEMENT LIMITED	7,500,000	2.39
7	APN FUNDS MANAGEMENT LIMITED	7,500,000	2.39
8	HOLVIA INVESTMENTS PTY LTD	7,000,000	2.23
9	RYLELAGE PTY LTD	5,950,271	1.90
10	NATIONAL NOMINEES LIMITED	5,754,736	1.83
11	MR STEPHEN CRAIG JERMYN	5,000,000	1.59
12	STRATEGIC VALUE PTY LTD	4,823,056	1.54
13	APN PROPERTY GROUP NOMINEES PTY LIMITED	3,900,001	1.24
14	STRATEGIC VALUE PTY LIMITED	3,462,972	1.10
15	VICTORIA SQUARE PTY LTD	2,955,627	0.94
16	HOLVIA INVESTMENTS PTY LTD	2,500,000	0.80
17	MR JOHN EDWARD MYTTON BARNES	2,269,735	0.72
18	AMSIL PTY LTD	1,536,862	0.49
19	REGION HALL PTY LTD	1,420,000	0.45
20	HOLUS NOMINEES PTY LTD	1,350,000	0.43
Total		**243,231,151**	**77.53**

Distribution of holders of equity securities as at 31 July 2019

Range	Securities	No. of holders	%
100,001 and Over	287,078,200	91.50	174
10,001 to 100,000	23,904,625	7.62	664
5,001 to 10,000	1,715,300	0.55	210
1,001 to 5,000	1,005,427	0.32	345
1 to 1,000	39,260	0.01	119
Total	**313,742,812**	**100.00**	**1,512**
Unmarketable Parcels	0	0.00	0

Substantial holder notices

The table below gives details of the last notice for each substantial unitholder lodged with the Australian Securities Exchange to 31 July 2019:

Effective date	Name	Number of Securities	%
27 May 2015	Melbourne Light Pty Ltd & Victoria Square Pty Ltd	28,875,631	9.56
21 October 2015	Holus Nominees Pty Limited[1]	55,106,941	18.24
21 October 2015	Lauren Investments Pty Limited[1]	20,632,650	6.83
4 June 2019	Phoenix Portfolios Pty Limited	33,914,108	10.81

1 Holus Nominees and Lauren Investments are associates of Mr Christopher Aylward. Combined holding is 80,350,00 (25.61%)

On-market buy-back

There were no on-market buy-backs during the year.

Company secretary

Chantal Churchill

Registered office and Principal administration office

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PROPERTY
FOR INCOME
2019

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