

**APN Property Group Limited and its controlled entities (“APD”)  
Appendix 4E – Financial Report for the year ended 30 June 2017**

**Results for announcement to the market**

|  | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> | <b>%</b> |
|--|------------------------|------------------------|----------|
| Revenues from ordinary activities  | 24,972                 | 19,881                 | 26%      |
| Profit from ordinary activities after tax attributable to members              | 10,633                 | 7,286                  | 46%      |
| Profit / (Loss) from discontinued operations after tax attributable to members | 58                     | 42,384                 | (100%)   |
| Net profit for the period attributable to members                              | 10,691                 | 49,670                 | (78%)    |
| Net tangible assets per share  | 35.1 cents             | 43.1 cents             |          |

**Dividends**

|  | <b>2017</b> | <b>2016</b>  |
|--|-------------|--------------|
| Interim (cents per share); 100% franked amount | 1.25        | 1.25         |
| Final (cents per share); 100% franked amount   | 0.75        | 0.50         |
| Special (cents per share); 100% franked amount | –           | 10.00        |
| <b>Total (cents per share)</b>                 | <b>2.00</b> | <b>11.75</b> |

|   |                   |
|---|-------------------|
| Record date for determining entitlement | 11 September 2017 |
| Payment date                            | 28 September 2017 |

The further information required by the listing rules is included in the accompanying Financial Report.

Refer to the Directors’ Report for an explanation of the operational and financial results of the Group.



Chantal Churchill  
Company Secretary

24 August 2017

**APN Property Group Limited**

**ABN 30 109 846 068**

**Annual report for the financial year ended 30 June 2017**

## 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 2017.

### Information about the Directors

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

#### **Chris Aylward** **Non-Executive Chairman**

- A Director since 1996 (transitioned to Non-Executive Chairman 1 January 2017).

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 PG in 1996 and maintains an interest in the wine industry. He has been Chairman of APN PG since inception and remains its largest shareholder.

#### **Clive Appleton** **BEC, MBA, AMP (Harvard), GradDip (Mktg), FAICD** **Independent Director**

- A Director since 2004.

Clive joined APN PG 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 PG in 2005 and was responsible for managing APN PG'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 a Non-Executive Director of Gandel Group (since 1997 and Deputy Chairman since July 2017), Aspen Group (since 2012 and Chairman since 2016), Arrow International (since 2012) and Perth Airports Corporation (since 2014). He is also a Council Member of Cairnmillar Institute.

#### **Howard Brenchley** **BEC** **Non-Executive Director**

- A Director since 1998.

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, MBA (London Business School)**  
**Executive Director, Chief Executive Officer (appointed 1 January 2017)**

- A Director since 2014

Tim has over 14 years' experience across real estate, funds management, investment banking and law. Tim has been with APN PG for over 8 years in roles across investment management, operations, transactions and leadership.

Over Tim's career, he has practised law at Herbert Smith Freehills as a qualified corporate lawyer and worked in corporate finance advisory within Goldman Sachs' investment banking division.

Tim has worked on mergers, acquisitions and financing transactions of several billion dollars within Australia and internationally including a number of significant commercial real estate transactions.

He has led both private and public capital raising projects for real estate investments and successfully completed asset acquisitions, sales and asset management projects across a range of different real estate asset classes.

**Anthony (Tony) Young**  
**FCA, ASIA, AAIB(Snr)**  
**Independent Director**

- A Director since December 2015.

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

Tony is also a director of Morningstar Australia, a leading global provider of independent fund management and equity investment research; 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 PricewaterhouseCoopers. 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.

**Company Secretary**

**Chantal Churchill (appointed 1 December 2016)**  
**BSc(Psych), GradDipHRM**

Chantal is responsible for overseeing the corporate governance and compliance framework at APN.

Chantal has over 15 years' experience in governance, compliance and risk across the financial services industry.

Prior to joining APN in 2015, Chantal held compliance and risk roles at Arena Investment Management, Tabcorp and Invesco Australia.

**John Freemantle (resigned 30 November 2016)**  
**B.Bus, CPA**

- Company Secretary since 2007 to 30 November 2016

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Federation Centres (formerly Centro Property Group), where he held the roles of Chief Financial Officer and Company Secretary for 17 years.

## 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 2017 APN operated three business divisions:

- Real Estate Securities;
- Industria 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.

**Industria REIT** (ASX Code: IDR) 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.

**Direct Funds** comprises predominately 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.

## Review of Results and Operations

The Group reported a net profit after tax of \$10.7 million for the year ended 30 June 2017, down \$39.0 million from the prior comparative period (pcp) which included a profit of \$42.5 million on the divestment of APN's interest in its Healthcare operations. Statutory earnings (diluted) from continuing operations for the year was 2.77 cents per share (cps), with net tangible assets per share increasing by 2 cents, after adjusting for the payment of a 10 cps special dividend, to 35.1 cps. On a like for like basis, Funds under Management (FuM) increased 13.5% to \$2.5 billion at year end.

Operating earnings after tax and minority interests (MI) increased from \$3.8 million in the pcp to \$7.3 million, representing operating earnings per share calculated on a statutory basis of 1.67 cents, consistent with the Groups' FY17 guidance. On a pro-forma basis<sup>1</sup> operating earnings per share was 2.35 cps. A detailed analysis of the results for the year is as follows:

| Management Income Statement                            | 2017<br>\$'000 | 2016 <sup>2</sup><br>\$'000 |
|--|----------------|-----------------------------|
| Fund management fees                                   | 12,873         | 10,797                      |
| Performance and transaction fees                       | 845            | 931                         |
| Asset and project management fees                      | 229            | (171)                       |
| Registry and other fees                                | 2,433          | 2,477                       |
| <b>Total net funds management income</b>               | <b>16,380</b>  | <b>14,034</b>               |
| Co-investment income                                   | 4,590          | 2,787                       |
| Rental and other property related income               | 1,997          | 1,552                       |
| <b>Total net income</b>                                | <b>22,967</b>  | <b>18,373</b>               |
| Employment costs                                       | (8,922)        | (7,807)                     |
| Occupancy costs  | (578)          | (1,043)                     |
| Sales & Marketing costs                                | (763)          | (736)                       |
| Other costs  | (2,046)        | (2,352)                     |
| Depreciation & amortisation                            | (155)          | (159)                       |
| Finance income / (expenses)                            | 134            | (966)                       |
| <b>Operating earnings before tax</b>                   | <b>10,637</b>  | <b>5,310</b>                |
| Income tax expense                                     | (3,317)        | (1,558)                     |
| <b>Operating earnings after tax and MI<sup>3</sup></b> | <b>7,320</b>   | <b>3,752</b>                |
| Other non-operating items, including income tax        | 3,371          | 45,918                      |
| <b>Statutory profit after tax</b>                      | <b>10,691</b>  | <b>49,670</b>               |

<sup>1</sup> Operating earnings per share calculated on a statutory basis but adjusted to exclude the impact of the payment of the 10 cps special dividend made on 18 October 2016.

<sup>2</sup> Restated to classify the contribution to Operating earnings of the Healthcare operations for the period 1 July 2015 to 26 June 2016 to 'Other non-operating items, including income tax'.

<sup>3</sup> 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 (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

Total net income for the financial year increased \$4.6 million to \$23.0 million for FY17. This result has been led by strong growth of 16.7% in total net funds management income as FuM growth in the Industria REIT and Direct Funds Divisions offset a net neutral result from the Real Estate Securities Division.

Co-investment income increased 64.7% versus the pcp to \$4.6m, reflecting the deployment of an additional \$31.1 million on co-investment stakes predominately in Industria REIT and Convenience Retail REIT No.2 (formerly known as APN Retail Property Fund). The Convenience Retail REIT No.2 was established as a pre-IPO fund and subsequent to 30 June 2017 was successfully combined with APN Property Plus Portfolio and additional property to established the newly ASX listed Convenience Retail REIT (ASX: CRR).

Costs of operating our funds management platform increased from \$12.1 million to \$12.5 million, primarily driven by increased employment costs following the continued investment in our people and capabilities and the establishment of a long term share based incentive plan for a small number of employees. The reduction in occupancy and other costs has arisen following renegotiation and extension of APN's office lease to 2024 and successful efforts to restrain other controllable operating costs.

Other non-operating items (net of tax) in the current year includes a \$0.9 million realised gain on disposal of 7-Eleven Eagleby and the South Nowra Service Centre which were sold during the year and \$2.2 million of unrealised mark to market gains on APN's co-investment stakes (predominately Industria REIT). The pcp result included a \$42.5 million profit realised on the sale of APN's interest in the Healthcare Operations, with the balance largely attributed to unrealised co-investment mark to market gains.

### Real Estate Securities

APN's Real Estate Securities (RES) offers retail and institutional investors exposure to listed (AREIT's and Asian REIT's) and unlisted property securities across six different investment products. Targeted at independent financial planner networks, major financial institution investment platforms and wraps, broker networks (through the ASX's mFund settlement service) and self-directed investors, and now available as a dedicated New Zealand Portfolio Investment Entity (PIE) product, RES products are actively marketed to Australian and New Zealand investors.

RES Funds under Management remained steady at \$1.5 billion as at 30 June. Net inflows of \$169 million for the year were offset by the return of \$41 million to investors from the wind-up of the legacy APN Unlisted Property Fund and unfavourable mark to market portfolio valuation movements of \$165 million. Continued focus on the wholesale mandate strategic initiative delivered \$63 million to these net inflows, including \$57 million in the second half, when the Colonial First State (CFS) AREIT investment mandate was included in CFS model portfolios. The APN Asian REIT Fund continues to gain traction, with FuM up 53.0% to \$13 million as at year end.

Both the APN Asian REIT Fund and APN AREIT Fund maintained their high ratings by research houses, with performance remaining 'true to label' across 1, 3 and 5 year time frames. RES's products continue to be recognised as delivering consistent and relatively high levels of income, some capital growth and lower than market volatility for investors.

The 2018 priorities for RES remain focused on continuing to deliver strong investment performance and service for its investors. Opportunities are being pursued to leverage our experience with wholesale style mandates in new markets and to secure broader wrap and platform representation for the New Zealand APN AREIT PIE Fund.

### Industria REIT

Industria REIT (IDR) is an ASX listed real estate investment trust which owns office and industrial properties providing functional and affordable workspaces for businesses. IDR's \$638 million portfolio of properties, located across the major Australian cities, provides sustainable income and capital growth prospects for security holders over the long term. APN's co-investment in IDR, with its RES funds, now totals over 21.39%.

Funds under Management increased 51.7% to \$640 million at 30 June, following the \$159 million acquisition of WesTrac Newcastle and strong transaction markets leading to substantial increases in property valuations.

The WesTrac Newcastle acquisition completed during the year represented the addition of a best-in-class facility to the property portfolio, significantly improving IDR's scale and portfolio metrics. The fund received significant support from capital markets for this acquisition with \$85 million in equity and \$50 million in new debt secured.

### Highlights

- Funds under Management steady at \$1.5 billion
- Average net inflows across AREIT strategy of \$17 million per month
- Wholesale mandate strategy gained momentum with over \$57 million of second half net inflows via CFS mandate
- Expanded offshore product accessibility through February 2017 launch of the New Zealand APN AREIT PIE Fund

### Highlights

- Funds under Management up 51.7% to \$640 million
- WesTrac Newcastle acquired for \$159 million
- \$85 million in new equity raised
- FY2017 cash earnings growth 3.4%
- NTA growth over FY2017 23.6%

Management has continued to actively manage the Fund during the period, implementing new tenant engagement and value add initiatives, including the recently announced solar energy installation at Brisbane Technology Park. Over 24,000 sqm of leasing transactions were completed in the year, delivering portfolio occupancy of 95% and a long WALE of 7.6 years. IDR is well positioned for investors looking for dependable lower risk income yields.

#### Direct Funds

APN's Direct Funds division comprises predominately fixed term unlisted direct property funds that provide specific opportunities to access property returns not generally available to individual real estate investors. APN's existing product suite includes retail, sophisticated / high net worth and institutional investors.

Funds under Management increased 56.1% to \$320 million at 30 June. APN successfully capitalised on its balance sheet strength and flexibility during the period to launch the Convenience Retail REIT No.2, a pre-IPO investment opportunity. This balance sheet strength provided transaction certainty for Puma Energy (Australia) Group Pty Ltd and permitted the Group time to capture the strong equity demand from its established distribution channels.

Subsequent to 30 June, this fund was successfully combined with APN Property Plus Portfolio and additional property to establish the newly ASX listed Convenience Retail REIT (ASX: CRR). The Fund has an attractive growth opportunity and is well placed to deliver stable and growing income returns, consistent with APN's 'property for income' philosophy.

Good progress was made during the period in the APN Steller Development Fund with construction completed for 2 projects and significant progress underway on 2 of the 4 remaining projects. Securing the required level of pre-sales for the remaining projects remains a priority.

The success of the Convenience Retail REIT No.2 and the subsequent establishment and IPO of Convenience Retail REIT demonstrate APN's disciplined and focused approach on pursuing new product opportunities that deliver attractive risk-adjusted returns to our investor base. Opportunities to leverage our reputation as a trusted manager for investors seeking commercial property exposure are being pursued.

#### Dividends

Fully franked ordinary dividends totalling 2.00 cps have been declared in relation to FY17, up 0.25 cps on both guidance and the prior year. A fully franked interim dividend of 1.25 cps was paid to shareholders on 17 March 2017, with the fully franked final dividend of 0.75 cps being payable on 28 September 2017 to those shareholders registered as at 11 September 2017. The distribution reinvestment plan remains suspended.

#### Outlook

The official Australian interest rate of 1.50% p.a. has remained static for the year as meaningful economic growth remains elusive. Wage growth continues to remain subdued, impacting all areas of the economy and the operating environment for some commercial real estate sectors. Global volatility and risk has returned in recent times and is likely to remain for the foreseeable future.

Against this backdrop, demand from domestic and global investors for quality investment grade commercial real estate continues to be strong. APN, with its diversified suite of predominantly income focused commercial real estate products and extensive property investment management experience remains ideally positioned to grow in this market.

#### Earnings and Dividend Guidance

Operating Earnings after tax guidance of 2.35 to 2.65 cps is forecast for FY2018. In accordance with our earnings guidance practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance. FY18 dividend guidance is 2.00 cps, fully franked.

This guidance is based on a continuation of the current regulatory environment and market conditions, particularly the Australian listed and unlisted property markets.

#### Highlights

- Funds under Management up 56.1% to \$320 million
- Successful establishment of the pre-IPO Convenience Retail REIT No.2
- Post balance date IPO of the \$308 million Convenience Retail REIT (comprising Convenience Retail REIT No.2, APN Property Plus Portfolio and additional properties)



## Key risks

The following are key risk areas that could impact the Company'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 the structure of the markets that we operate in. Regulatory breaches may affect APN and its key customers through penalties, liabilities, restrictions on activities and compliance and other costs. We have established a regulatory compliance framework to monitor compliance with our licence requirements at all times.

In addition, the Australian funds management industry continues to operate in a period of significant regulatory change with respect to superannuation and to the provision of financial advice, external scrutiny and digital disruption. The interpretation, practical implementation and reputational consequences of changes 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 3 July 2017, the \$3,146,000 deposit paid by the Group to secure a service station / convenience retail property for Convenience Retail REIT was refunded following confirmation that Caltex had exercised its last right of refusal to acquire the property.

On 6 July 2017, the Group announced it had secured a \$8,000,000 loan facility to enhance balance sheet flexibility and support the growth initiatives available across APN's platform.

On 14 July 2017, the Company resigned as the responsibility entity of Generation Healthcare REIT following its takeover by Northwest Healthcare Properties REIT, concluding early the final responsibilities arising from the divestment of the manager and co-investment stake as previously announced in June 2016.

On 27 July 2017, Convenience Retail REIT (CRR) successfully completed its initial public offering and commenced trading on the Australian Securities Exchange (ASX) under the ASX ticker 'CRR'. CRR was formed via the stapling of three managed investment schemes (two of which were existing funds managed by APN FM being APN Property Plus Portfolio and Convenience Retail REIT No.2), supplemented by the acquisition of a further \$113,200,000 of new assets. In conjunction with this listing, the Group invested an additional \$16,696,000 million to increase its co-investment stake in CRR to over 12%.

Other than described above, there has 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, and 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 Branchley | Timothy Slattery | Anthony Young |
| <b>APN Property Group Limited</b>   |                     |                |                  |                  |               |
| Number of fully paid ordinary shares  | 77,850,000          | 915,001        | 9,500,000        | 403,780          | 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        | -             |
| <b>Number of securities in a related body corporate</b>                                 |                     |                |                  |                  |               |
| Industria REIT  | 148,569             | -              | -                | 25,666           | -             |
| APN Property for Income Fund No. 2  | -                   | 9,077          | -                | -                | -             |
| APN AREIT Fund  | -                   | 507,352        | 96,940           | -                | -             |
| APN Asian REIT Fund   | -                   | 210,600        | -                | -                | -             |
| APN European Retail Property Group  | 366,826             | 3,495          | 2,437            | -                | -             |
| APN Steller Development Fund  | 750,000             | -              | -                | 50,000           | -             |
| APN Property Plus Portfolio   | -                   | -              | 10,000           | -                | -             |
| APN Regional Property Fund  | -                   | -              | 91,474           | -                | -             |
| Convenience Retail REIT No.2  | -                   | -              | 100,000          | -                | -             |

## Share options granted / exercised

In the period since 1 July 2016, an aggregate 10,000,000 share options were granted to the following five highest remunerated officers of the company and its controlled entities as part of their remuneration. Further details are set in note 27.

| Executive        | Number of options granted | Issuing entity             | Number of ordinary shares under option |
|------------------|---------------------------|----------------------------|--|
| Michael Groth    | 2,500,000                 | APN Property Group Limited | 2,500,000                              |
| Timothy Slattery | 7,500,000                 | APN Property Group Limited | 7,500,000                              |

In the period since 1 July 2016, 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 | 1,264,354               | Ordinary shares | 289,354                | -                       |

## Unissued shares under option

There are no unissued ordinary shares of the Company and the interests 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).

| Directors            | APN Board |          | Audit and Risk Management committee <sup>(i)</sup> |          | Nomination and Remuneration committee <sup>(i)</sup> |          |
|----------------------|-----------|----------|--|----------|--|----------|
|                      | Held      | Attended | Held   | Attended | Held   | Attended |
| Christopher Aylward  | 9         | 8        | N/A  | N/A      | N/A  | N/A      |
| Clive Appleton       | 9         | 7        | 1  | 1        | 1  | 1        |
| Howard Branchley     | 9         | 8        | 1  | 1        | 1  | 1        |
| Timothy Slattery     | 9         | 9        | N/A  | N/A      | N/A  | N/A      |
| Anthony (Tony) Young | 9         | 9        | 1  | 1        | 1  | 1        |

(i) Committee established October 2016

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).

| Directors                    | APN FM Board |          | Audit, Compliance and Risk Management committee |          | Nomination and Remuneration committee |          |
|------------------------------|--------------|----------|---|----------|---------------------------------------|----------|
|                              | Held         | Attended | Held  | Attended | Held                                  | Attended |
| Geoff Brunsdon               | 18           | 17       | 8   | 8        | 2                                     | 2        |
| Jennifer Horrigan            | 18           | 18       | 8   | 8        | 2                                     | 2        |
| Michael Johnstone            | 18           | 16       | 8   | 8        | 2                                     | 2        |
| Howard Brenchley             | 18           | 17       | N/A   | N/A      | N/A                                   | N/A      |
| Michael Groth <sup>(i)</sup> | 18           | 18       | N/A   | N/A      | N/A                                   | N/A      |

(i) Alternate for Howard Brenchley

### 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 or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

### Auditor's independence declaration

The auditor's independence declaration is included on page 18 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 directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 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 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 all of the financial year and until the date of this report, except where otherwise noted, are:

#### Directors of APN

- Christopher Aylward (Transitioned from Executive Chairman to Non-Executive Chairman on 1 January 2017)
- Timothy Slattery (Executive Director, Appointed as Chief Executive Officer (CEO) on 1 January 2017)
- Howard Brenchley (Non-Executive Director)
- Clive Appleton (Independent Non-Executive Director)
- Anthony (Tony) Young (Independent Non-Executive Director)

#### Directors of APN FM

- Geoff Brunson (Independent Non-Executive Chairman)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horrigan (Independent Non-Executive Director)
- Howard Brenchley (Non-Executive 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 since 1 December 2016)
- Michael Groth (Chief Financial Officer)
- John Freemantle (Company Secretary resigned on 30 November 2016)

### 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 delivering constant returns on shareholder wealth; and
- the amount of performance based incentives included within each director and key management personnel compensation packages.

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 benefits of shares in APN issued when he was managing director, pursuant to the incentive arrangements as 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 entitlement to cash bonuses; and
- Long term incentives (LTI) – Performance-linked entitlement to shares.

Compensation packages for executive directors and key management personnel may include a mix of fixed (including non-cash benefits) and variable compensation (short and long term incentives) 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 and 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 consists of 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 key management personnel STIs are principally determined on whether the Group exceeds its budgeted recurring operating earnings in a given financial year. This earnings measure excludes acquisition and disposal fees and mark to market changes to the values of the Group's investments as it seeks to define the Group's sustainable underlying recurring earnings. The quantum of annual STIs cannot exceed 100% of base salaries except in extraordinary circumstances. Actual STI entitlements are determined subsequent to 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 performance criteria. These arrangements are approved in advance by the Board. It is a condition of the incentive, that the entitlement is paid in three equal installments over two years, conditional upon continued employment at the time each payment is due.

All other eligible employees will be considered 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 the APN Group 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. Participation in the ownership of APN through LTIs is subject vesting criteria aligned to the creation of long term shareholder value.

For key management personnel LTIs are based on the growth in the Group's recurring operating earnings (which excludes acquisition and disposal fees and mark to market changes) over a three year time period. The Board's view is that growth in the Group's recurring operating earnings per share is the most appropriate measure of future long term growth of the Group value.

### APN Employee Performance Securities Plan (EPSP)

In accordance with the terms and conditions of the EPSP, 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. 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 are characterised as options for reporting purposes.

At 30 June 2017, the fair value of the share options issued and included in the equity compensation reserve is \$2,407,408 (2016: \$1,714,857).

The following offers made in the year ended 30 June 2017, in accordance with the EPSP, affect the remuneration of key management personnel in the current financial year or future financial years:

| Options series       | Grant date | Number    | Exercise price | Grant date fair value |
|----------------------|------------|-----------|----------------|-----------------------|
| (15) 7 December 2016 | 7 Dec 2016 | 2,500,000 | \$0.40         | \$0.07                |
| (16) 7 December 2016 | 7 Dec 2016 | 2,500,000 | \$0.40         | \$0.09                |
| (17) 7 December 2016 | 7 Dec 2016 | 2,500,000 | \$0.40         | \$0.09                |
| (18) 7 December 2016 | 7 Dec 2016 | 833,333   | -              | \$0.37                |
| (19) 7 December 2016 | 7 Dec 2016 | 833,333   | -              | \$0.35                |
| (20) 7 December 2016 | 7 Dec 2016 | 833,334   | -              | \$0.35                |

Series (15) & (18): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019.

Series (16) & (19): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019.

Series (17) & (20): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019.

The share options expire on the termination of the individual employees' employment. There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Details of share based-payments granted as compensation to key management personnel during the current financial year:

| Name             | Options series        | During the year |            |                   |                      | % of compensation for the year consisting of options |
|------------------|-----------------------|-----------------|------------|-------------------|----------------------|--|
|                  |                       | No. granted     | No. vested | % of grant vested | % of grant forfeited |  |
| Timothy Slattery | Series (15) (16) (17) | 7,500,000       | -          | -                 | -                    | 28.27%   |
| Michael Groth    | Series (18) (19) (20) | 2,500,000       | -          | -                 | -                    | 38.70%   |

During the year, the following key management personnel exercised options that were granted to them as part of their compensation. Each option converts into one ordinary share of APN.

| Name            | No of options exercised | No of ordinary shares of APN | Amount paid | Amount unpaid |
|-----------------|-------------------------|------------------------------|-------------|---------------|
| John Freemantle | 250,000                 | 250,000                      | \$75,000    | \$nil         |

No share options 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 2017, \$nil (2016: \$2,000) has been recognised as employee expenses and 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 2017, 3,900,001 (2016: 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 (2016: \$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 reviews currently effective on 1<sup>st</sup> July each year;
- the basis of termination or retirement and the benefits and conditions as a consequence;
- agreed provisions in relation to annual leave and long service leave, confidential information, intellectual property; and
- a restrictive covenant preventing the employees from engaging in specified activities after their employment with the Group ceases.

The service agreement entered into with Christopher Aylward (who transitioned to Non-Executive Director on 1 January 2017), is as set out below.

- Christopher Aylward has entered into an open ended agreement which is terminable by either party without notice. The agreement provides for a total remuneration package of \$30,000 per annum (excluding share-based payments, long service leave benefits and other non-monetary benefits, if applicable), increasing to \$42,025 per annum effective from 1 July 2017 following the surrender of car parking benefits.

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, except as otherwise stated above.

### 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 2017 as illustrated in the table below:

|                       | 30 June 2017  | 30 June 2016  | 30 June 2015  | 30 June 2014  | 30 June 2013  |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
|                       | \$'000        | \$'000        | \$'000        | \$'000        | \$'000        |
| Revenue               | 25,149        | 39,056        | 28,699        | 25,381        | 18,526        |
| Sundry income         | 27            | 18            | 38            | 49            | 11            |
| <b>Total revenue</b>  | <b>25,176</b> | <b>39,074</b> | <b>28,737</b> | <b>25,430</b> | <b>18,537</b> |
| Net profit before tax | 15,387        | 71,748        | 18,068        | 13,652        | 2,448         |
| Net profit after tax  | 10,755        | 54,747        | 14,839        | 9,280         | 1,368         |

|                                       | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Share price at start of year          | \$0.50       | \$0.37       | \$0.29       | \$0.21       | \$0.16       |
| Share price at end of year            | \$0.41       | \$0.50       | \$0.37       | \$0.29       | \$0.21       |
| Interim dividend <sup>(i)</sup>       | 1.25 cps     | 1.25 cps     | 1.25 cps     | 1.25 cps     | 1.25 cps     |
| Final dividend <sup>(i), (ii)</sup>   | 0.75 cps     | 0.50 cps     | 0.25 cps     | –            | –            |
| Special dividend <sup>(i), (ii)</sup> | –            | 10.00 cps    | –            | –            | –            |
| Basic earnings per share              | 2.84 cps     | 16.96 cps    | 5.65 cps     | 3.94 cps     | 1.28 cps     |
| Diluted earnings per share            | 2.79 cps     | 16.60 cps    | 5.58 cps     | 3.93 cps     | 1.28 cps     |

(i) Franked to 100% at 30% corporate income tax rate.

(ii) 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 2017

|  | Non Performance based |         | Performance based remuneration |        |                      |       |
|--|-----------------------|---------|--------------------------------|--------|----------------------|-------|
|  | Fixed remuneration    |         | LTI – Performance shares       |        | STI – Cash based     |       |
|  | 2017                  | 2016    | 2017                           | 2016   | 2017 <sup>(vi)</sup> | 2016  |
| <b>Directors – Executive</b>                               |                       |         |                                |        |                      |       |
| Christopher Aylward, Non-Executive Chairman <sup>(i)</sup> | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| Timothy Slattery, CEO <sup>(ii)</sup>                      | 47.93%                | 53.37%  | 28.27%                         | 46.63% | 23.80%               | –     |
| <b>Directors – Non-Executive (APN)</b>                     |                       |         |                                |        |                      |       |
| Clive Appleton (Independent)                               | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| Howard Brenchley <sup>(iii)</sup>                          | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| Anthony Young (Independent)                                | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| <b>Directors – Non-Executive (APN FM)</b>                  |                       |         |                                |        |                      |       |
| Geoff Brunson (Independent)                                | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| Jennifer Horrigan (Independent)                            | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| Michael Johnstone (Independent)                            | 100.00%               | 100.00% | –                              | –      | –                    | –     |
| <b>Key Management Personnel</b>                            |                       |         |                                |        |                      |       |
| John Freemantle <sup>(iv)</sup>                            | 92.42%                | 93.48%  | –                              | –      | 7.58%                | 6.52% |
| Michael Groth  | 39.04%                | 51.43%  | 38.70%                         | 48.41% | 22.26%               | 0.16% |
| Chantal Churchill <sup>(v)</sup>                           | 92.02%                | –       | –                              | –      | 7.98%                | –     |

(i) Chris Aylward transitioned from Executive Chairman to Non-Executive Chairman from 1 January 2017.

(ii) Timothy Slattery was appointed as Chief Executive Officer on 1 January 2017.

(iii) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.

(iv) John Freemantle resigned on 30 November 2016.

(v) Chantal Churchill was appointed on 1 December 2016.

(vi) 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 2018, 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:

| 2017   | Short-term employee benefits |                        |                                   | Post-employment benefits | Other long-term employee benefits | Share-based payments <sup>(iv)</sup>      | Total \$  |
|--|------------------------------|------------------------|-----------------------------------|--------------------------|-----------------------------------|---|-----------|
|  | Salary & fees \$             | STIs <sup>(v)</sup> \$ | Non-mone-tary <sup>(iii)</sup> \$ | Super-annuation \$       | Long service leave \$             | Equity-settled Options & rights (LTIs) \$ |           |
| <b>Directors – Executive</b>                               |                              |                        |                                   |                          |                                   |   |           |
| Timothy Slattery <sup>(i)</sup>                            | 360,384                      | 200,000                | 11,509                            | 19,616                   | 11,271                            | 237,602                                   | 840,382   |
| <b>Directors – Non-Executive (APN)</b>                     |                              |                        |                                   |                          |                                   |   |           |
| Christopher Aylward, Non-Executive Chairman <sup>(i)</sup> | 27,397                       | –                      | 48,530                            | 2,603                    | –                                 | –   | 78,530    |
| Clive Appleton (Independent) <sup>(i)</sup>                | 77,626                       | –                      | –                                 | 7,374                    | –                                 | –   | 85,000    |
| Howard Brenchley <sup>(i),(ii)</sup>                       | 192,000                      | –                      | –                                 | –                        | –                                 | –   | 192,000   |
| Anthony Young (Independent) <sup>(i)</sup>                 | 85,000                       | –                      | –                                 | –                        | –                                 | –   | 85,000    |
| <b>Directors – Non-Executive (APN FM)</b>                  |                              |                        |                                   |                          |                                   |   |           |
| Geoff Brunson (Independent)                                | 230,000                      | –                      | –                                 | –                        | –                                 | –   | 230,000   |
| Jennifer Horrigan (Independent)                            | 103,945                      | –                      | –                                 | 2,305                    | –                                 | –   | 106,250   |
| Michael Johnstone (Independent)                            | 136,000                      | –                      | –                                 | –                        | –                                 | –   | 136,000   |
| <b>Key Management Personnel</b>                            |                              |                        |                                   |                          |                                   |   |           |
| John Freemantle <sup>(i)</sup>                             | 228,956                      | 20,000                 | 5,434                             | 9,456                    | –                                 | –   | 263,846   |
| Michael Groth <sup>(i)</sup>                               | 320,384                      | 200,000                | –                                 | 19,616                   | 10,691                            | 347,592                                   | 898,283   |
| Chantal Churchill <sup>(i)</sup>                           | 143,074                      | 13,699                 | –                                 | 14,893                   | –                                 | –   | 171,666   |
| Total compensation: (Group)                                | 1,904,766                    | 433,699                | 65,473                            | 75,863                   | 21,962                            | 585,194                                   | 3,086,957 |
| Total compensation: (Company)                              | 1,434,821                    | 433,699                | 65,473                            | 73,558                   | 21,962                            | 585,194                                   | 2,614,707 |

(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 car parking benefits, travel and the relevant fringe benefit tax incurred during the year.

(iv) Options priced using Black-Scholes option pricing model. The value of options granted during the period is recognised in compensation over the vesting period of the grant.

(v) 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 2018, out of the general STI provision established in the current financial year.



| 2016 | Short-term employee benefits |            |                                      | Post-employment benefits | Other long-term employee benefits | Share-based payments <sup>(iv)</sup> |                               | Total |
|------|------------------------------|------------|--------------------------------------|--------------------------|-----------------------------------|--------------------------------------|-------------------------------|-------|
|      | Salary & fees<br>\$          | STIs<br>\$ | Non-mone-tary <sup>(iii)</sup><br>\$ | Super-annuation<br>\$    | Long service leave<br>\$          | Equity-settled                       |                               |       |
|      |                              |            |                                      |                          |                                   | Shares & units<br>\$                 | Options & rights (LTIs)<br>\$ |       |

**Directors – Executive**

|  |         |   |        |        |        |   |         |         |
|--|---------|---|--------|--------|--------|---|---------|---------|
| Christopher Aylward, Executive Chairman <sup>(i)</sup> | 27,397  | – | 11,329 | 2,603  | –      | – | –       | 41,329  |
| Timothy Slattery <sup>(i)</sup>                        | 305,692 | – | 11,329 | 19,308 | 20,368 | – | 311,618 | 668,315 |

**Directors – Non-Executive (APN)**

|   |         |   |   |       |   |   |   |         |
|---|---------|---|---|-------|---|---|---|---------|
| Clive Appleton (Independent) <sup>(i)</sup> | 77,626  | – | – | 7,374 | – | – | – | 85,000  |
| Howard Brenchley <sup>(i),(ii)</sup>        | 192,000 | – | – | –     | – | – | – | 192,000 |
| Anthony Young (Independent) <sup>(i)</sup>  | 45,927  | – | – | –     | – | – | – | 45,927  |

**Directors – Non-Executive (APN FM)**

|                                 |         |   |   |       |   |   |   |         |
|---------------------------------|---------|---|---|-------|---|---|---|---------|
| Geoff Brunson (Independent)     | 182,750 | – | – | –     | – | – | – | 182,750 |
| Jennifer Horrigan (Independent) | 97,032  | – | – | 9,218 | – | – | – | 106,250 |
| Michael Johnstone (Independent) | 136,000 | – | – | –     | – | – | – | 136,000 |

**Key Management Personnel**

|                                |           |        |        |        |        |       |         |           |
|--------------------------------|-----------|--------|--------|--------|--------|-------|---------|-----------|
| John Freemantle <sup>(i)</sup> | 245,692   | 20,000 | 11,329 | 19,308 | 4,849  | 1,000 | –       | 302,178   |
| Michael Groth <sup>(i)</sup>   | 305,692   | –      | –      | 19,308 | 6,034  | 1,000 | 311,618 | 643,652   |
| Total compensation: (Group)    | 1,615,808 | 20,000 | 33,987 | 77,119 | 31,251 | 2,000 | 623,236 | 2,403,401 |
| Total compensation: (Company)  | 1,200,026 | 20,000 | 33,987 | 67,901 | 31,251 | 2,000 | 623,236 | 1,978,401 |

(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 car parking benefits and the relevant fringe benefit tax provided during the year.

(iv) Options were priced using Black-Scholes option pricing model. No new options were issued in the current year. The amount recognised in compensation expense relates to the systematic recognition of the expense over the vesting period of options issued in May 2014.

**Loans to key management personnel**

There are no loans to key management personnel in the current period (2016: \$nil).

**Key management personnel equity holdings**

**Fully paid ordinary shares of APN Property Group Limited**

|                                   | Balance at 30 June 2016<br>No. | Granted as compensation<br>No. | Received from share gift plan<br>No. | Purchased<br>No. | Disposed<br>No. | Balance at 30 June 2017<br>No. | Balance held nominally<br>No. |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------------|------------------|-----------------|--------------------------------|-------------------------------|
| <b>Directors</b>                  |                                |                                |                                      |                  |                 |                                |                               |
| Christopher Aylward               | 76,400,000                     | –                              | –                                    | 1,450,000        | –               | 77,850,000                     | –                             |
| Clive Appleton                    | 915,001                        | –                              | –                                    | –                | –               | 915,001                        | –                             |
| Howard Brenchley                  | 9,500,000                      | –                              | –                                    | –                | –               | 9,500,000                      | –                             |
| Timothy Slattery                  | 353,780                        | –                              | –                                    | 50,000           | –               | 403,780                        | –                             |
| Anthony Young                     | 10,544,407                     | –                              | –                                    | –                | –               | 10,544,407                     | –                             |
| <b>Key Management Personnel</b>   |                                |                                |                                      |                  |                 |                                |                               |
| Michael Groth                     | 139,390                        | –                              | –                                    | –                | –               | 139,390                        | –                             |
| John Freemantle <sup>(i)</sup>    | 448,578                        | –                              | –                                    | 250,000          | –               | 698,578                        | –                             |
| Chantal Churchill <sup>(ii)</sup> | 2,160                          | –                              | –                                    | –                | –               | 2,160                          | –                             |

(i) The balances shown for John Freemantle represent the number of shares held on the date of resignation.

(ii) Appointed on 1 December 2016

| 2016                            | Balance at 30 June 2015 No. | Granted as compensation No. | Received from share gift plan No. | Purchased No. | Disposed No. | Balance at 30 June 2016 No. | Balance held nominally No. |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------------|---------------|--------------|-----------------------------|----------------------------|
| <b>Directors</b>                |                             |                             |                                   |               |              |                             |                            |
| Christopher Aylward             | 75,538,761                  | -                           | -                                 | 861,239       | -            | 76,400,000                  | -                          |
| Clive Appleton                  | 915,001                     | -                           | -                                 | -             | -            | 915,001                     | -                          |
| Howard Brenchley                | 9,500,000                   | -                           | -                                 | -             | -            | 9,500,000                   | -                          |
| Timothy Slattery                | 296,780                     | -                           | -                                 | 57,000        | -            | 353,780                     | -                          |
| Anthony Young <sup>(i)</sup>    | -                           | -                           | -                                 | 10,544,407    | -            | 10,544,407                  | -                          |
| <b>Key Management Personnel</b> |                             |                             |                                   |               |              |                             |                            |
| John Freemantle                 | 443,358                     | -                           | 2,610                             | 2,610         | -            | 448,578                     | -                          |
| Michael Groth                   | 136,780                     | -                           | 2,610                             | -             | -            | 139,390                     | -                          |

(i) Appointed on 17 December 2015

#### Share options of APN Property Group Limited

During the financial year, 250,000 options were exercised by key management personnel at an exercise price of \$0.30 per option over 250,000 ordinary shares in APN.

| 2017                            | Balance at 30 June 2016 No. | Granted as compensation No. | Exercised No. | Other changes No. | Balance at 30 June 2017 No. | Balance vested at 30 June 2017 No. | Vested but not exercisable No. | Vested and exercisable No. | Options vested during year No. |
|---------------------------------|-----------------------------|-----------------------------|---------------|-------------------|-----------------------------|------------------------------------|--------------------------------|----------------------------|--------------------------------|
| <b>Directors</b>                |                             |                             |               |                   |                             |                                    |                                |                            |                                |
| Clive Appleton                  | 3,900,001                   | -                           | -             | -                 | 3,900,001                   | 3,900,001                          | -                              | 3,900,001                  | -                              |
| Timothy Slattery                | 7,500,000                   | 7,500,000                   | -             | -                 | 15,000,000                  | 7,500,000                          | -                              | 7,500,000                  | -                              |
| <b>Key Management Personnel</b> |                             |                             |               |                   |                             |                                    |                                |                            |                                |
| John Freemantle                 | 500,000                     | -                           | (250,000)     | (250,000)         | -                           | -                                  | -                              | -                          | -                              |
| Michael Groth                   | 7,525,000                   | 2,500,000                   | -             | -                 | 10,025,000                  | 7,525,000                          | -                              | 7,525,000                  | -                              |

| 2016                            | Balance at 30 June 2015 No. | Granted as compensation No. | Exercised No. | Other changes No. | Balance at 30 June 2016 No. | Balance vested at 30 June 2016 No. | Vested but not exercisable No. | Vested and exercisable No. | Options vested during year No. |
|---------------------------------|-----------------------------|-----------------------------|---------------|-------------------|-----------------------------|------------------------------------|--------------------------------|----------------------------|--------------------------------|
| <b>Directors</b>                |                             |                             |               |                   |                             |                                    |                                |                            |                                |
| Clive Appleton                  | 3,900,001                   | -                           | -             | -                 | 3,900,001                   | 3,900,001                          | -                              | 3,900,001                  | -                              |
| Timothy Slattery                | 7,500,000                   | -                           | -             | -                 | 7,500,000                   | 7,500,000                          | -                              | 7,500,000                  | 5,000,000                      |
| <b>Key Management Personnel</b> |                             |                             |               |                   |                             |                                    |                                |                            |                                |
| John Freemantle                 | 500,000                     | -                           | -             | -                 | 500,000                     | 500,000                            | -                              | 500,000                    | -                              |
| Michael Groth                   | 7,525,000                   | -                           | -             | -                 | 7,525,000                   | 7,525,000                          | -                              | 7,525,000                  | 5,000,000                      |

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.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Aylward', written in a cursive style with a large loop at the end.

Christopher Aylward  
Non-Executive Chairman

23 August 2017

## APN Corporate Governance Statement

APN Property Group (APN Group) comprises a number of entities including the parent entity, APN Property Group Limited (APN PG or Company) and its wholly owned subsidiary, APN Funds Management Limited (APN FM). APN FM is the Responsible Entity for the managed investment schemes currently operated by APN.

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

- The Board of APN PG (Board) comprises five directors, including the 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 focussed on serving the interests of all stakeholders.
- The Board of APN FM comprises four Directors, three of whom are independent, including an independent chairman, each of whom have a legal obligation to put the interests of investors in the Funds for which APN FM is responsible entity and/or trustee of ahead of their own and those of APN FM's sole shareholder, APN PG.

The Board considers that separation of the boards of APN PG and APN FM ensures that the responsibility for managing the interests of shareholders in the Company is completely independent of managing the interests of the APN funds and their respective investors. The 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 Policy
- Conflicts of Interest and Related Party Transactions Policy
- Continuous Disclosure Policy
- Diversity Policy
- Privacy Policy
- Securities Trading Policy

APN PG's full corporate governance statement can be downloaded from the Company's website at <http://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 3<sup>rd</sup> Edition), unless otherwise stated.

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

23 August 2017

Dear Board Members

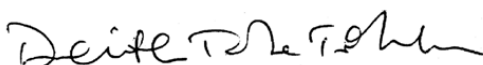
### **APN Property Group Limited**

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

As audit partner for the audit of the financial statements of APN Property Group Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell  
Partner  
Chartered Accountants  
Melbourne, 23 August 2017

## 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 controlled entities (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, 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 2017 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.

| Key Audit Matter  | How the scope of our audit responded to the Key Audit Matter  |
|---|---|
| <p><b>Valuation of investment properties held at fair value</b></p> <p>As at 30 June 2017 the Group's investment properties represents the second largest category of assets with a carrying value of \$24m as disclosed in Note 13.</p> <p>The investment properties are measured under the fair value model. The determination of fair value requires significant judgement due to the degree of subjectivity used by management, together with their internal and external valuation specialists (the "valuers"), in estimating the inputs used in the determination of the fair value of the investment properties including; net market rentals, capitalisation rates, terminal yields and discount rates.</p> | <p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- evaluating the independence, competence and objectivity of the valuers;</li> <li>- assessing the scope of the valuers' work;</li> <li>- assessing the currency of the valuation date;</li> <li>- challenging the appropriateness of the valuation techniques and the inputs used by the valuers, including; the net market rentals, capitalisation rates, and assessing overall values selected with reference to industry practice and external industry economic data;</li> <li>- testing the passing rental balances by agreeing them back to signed lease agreements; and</li> <li>- recalculating the mathematical accuracy of the valuation models.</li> </ul> <p>We have also assessed the appropriateness of the related disclosures in Note 13 to the financial statements.</p> |

## 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. The other information also includes the other documents which will be included in the Annual Report (but does not include the financial report, the remuneration report and our audit reports thereon), 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information 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, 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 other information in the Annual Report which we have not yet received, 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.
- 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

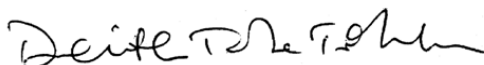
### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 9 to 16 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of APN Property Group Limited, for the year ended 30 June 2017, 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



Peter A. Caldwell  
Partner  
Chartered Accountants  
Melbourne, 23 August 2017

## 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

A handwritten signature in black ink, appearing to read 'Aylward', with a large, sweeping flourish above the name.

Christopher Aylward  
Non-Executive Chairman

23 August 2017

## Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2017

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>Continuing operations</b>   |      |                |                |
| Revenue  | 5    | 24,972         | 19,881         |
| Cost of sales  |      | (2,218)        | (2,503)        |
| Net revenue  |      | 22,754         | 17,378         |
| Finance income   | 6    | 1,034          | 1,274          |
| Administration expenses  |      | (12,463)       | (12,099)       |
| Fair value adjustments and business acquisition costs                | 7    | 4,662          | 4,505          |
| Finance costs  | 6    | (688)          | (1,242)        |
| Profit before tax  |      | 15,299         | 9,816          |
| Income tax expense   | 8    | (4,666)        | (2,530)        |
| Profit for the year from continuing operations                       |      | <b>10,633</b>  | <b>7,286</b>   |
| <b>Discontinued operations</b>                                       |      |                |                |
| Profit / (Loss) for the year from discontinued operations            | 9    | 122            | 47,461         |
| <b>Profit for the year</b>   |      | <b>10,755</b>  | <b>54,747</b>  |
| <b>Other comprehensive income, net of income tax</b>                 |      |                |                |
| <i>Items that may be reclassified subsequently to profit or loss</i> |      |                |                |
| Exchange differences arising on translating foreign operations       | 18   | (1)            | 97             |
| <b>Other comprehensive income for the year (net of income tax)</b>   |      | <b>(1)</b>     | <b>97</b>      |
| <b>Total comprehensive income for the year</b>                       |      | <b>10,754</b>  | <b>54,844</b>  |
| <b>Profit / (Loss) attributable to:</b>                              |      |                |                |
| Equity holders of the parent   |      | 10,691         | 49,670         |
| Non-controlling interests  |      | 64             | 5,077          |
|  |      | <b>10,755</b>  | <b>54,747</b>  |
| <b>Total comprehensive income / (loss) attributable to:</b>          |      |                |                |
| Equity holders of the parent   |      | 10,690         | 49,767         |
| Non-controlling interests  |      | 64             | 5,077          |
|  |      | <b>10,754</b>  | <b>54,844</b>  |
| <b>Earnings per share</b>  |      |                |                |
| <b>From continuing and discontinued operations</b>                   |      |                |                |
| Basic (cents per share)  | 15   | 2.84           | 16.96          |
| Diluted (cents per share)  | 15   | 2.79           | 16.60          |
| <b>From continuing operations</b>                                    |      |                |                |
| Basic (cents per share)  | 15   | 2.82           | 2.40           |
| Diluted (cents per share)  | 15   | 2.77           | 2.38           |

Notes to the financial statements are included on pages 29 to 62.

## Consolidated statement of financial position at 30 June 2017

|  | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|--|------|----------------|----------------|
| <b>Current assets</b>                                      |      |                |                |
| Cash and cash equivalents                                  | 23   | 18,640         | 72,031         |
| Trade and other receivables                                | 24   | 8,701          | 6,855          |
| Financial assets – held for sale                           | 10   | –              | 62,990         |
| <b>Total current assets</b>                                |      | <b>27,341</b>  | <b>141,876</b> |
| <b>Non-current assets</b>                                  |      |                |                |
| Investment in joint ventures                               |      | –              | 1              |
| Financial assets   | 10   | 77,820         | 43,924         |
| Trade and other receivables                                | 24   | –              | 6,000          |
| Property, plant and equipment                              | 12   | 260            | 173            |
| Investment properties                                      | 13   | 24,200         | 38,050         |
| Intangible assets  | 11   | 1,758          | 1,760          |
| <b>Total non-current assets</b>                            |      | <b>104,038</b> | <b>89,908</b>  |
| <b>Total assets</b>  |      | <b>131,379</b> | <b>231,784</b> |
| <b>Current liabilities</b>                                 |      |                |                |
| Trade and other payables                                   | 25   | 2,684          | 39,365         |
| Borrowings   | 16   | 10,456         | 36,408         |
| Current tax liabilities                                    | 8    | 1,629          | 5,606          |
| Provisions   | 26   | 2,164          | 4,279          |
| <b>Total current liabilities</b>                           |      | <b>16,933</b>  | <b>85,658</b>  |
| <b>Non-current liabilities</b>                             |      |                |                |
| Trade and other payables                                   | 25   | –              | 3,447          |
| Provisions   | 26   | 1,205          | 1,443          |
| Deferred tax liabilities                                   | 8    | 1,383          | 4,249          |
| <b>Total non-current liabilities</b>                       |      | <b>2,588</b>   | <b>9,139</b>   |
| <b>Total liabilities</b>                                   |      | <b>19,521</b>  | <b>94,797</b>  |
| <b>Net assets</b>  |      | <b>111,858</b> | <b>136,987</b> |
| <b>Equity</b>  |      |                |                |
| Issued capital   | 17   | 102,879        | 102,566        |
| Reserves   | 18   | 4,089          | 3,545          |
| Retained earnings  |      | 4,890          | 30,940         |
| <b>Equity attributable to equity holders of the parent</b> |      | <b>111,858</b> | <b>137,051</b> |
| Non-controlling interests                                  |      | –              | (64)           |
| <b>Total equity</b>  |      | <b>111,858</b> | <b>136,987</b> |

Notes to the financial statements are included on pages 29 to 62.

## Consolidated statement of changes in equity for the year ended 30 June 2017

|  | Share capital<br>\$'000 | Retained earnings<br>\$'000 | Equity-settled employee benefits reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Total Attributable to equity holders of the parent<br>\$'000 | Non-Controlling Interests<br>\$'000 | Total<br>\$'000 |
|--|-------------------------|-----------------------------|--|--|--|-------------------------------------|-----------------|
| <b>Balance at 1 July 2015</b>  | <b>101,832</b>          | <b>(12,362)</b>             | <b>2,768</b>                                       | <b>(1,657)</b>                                 | <b>90,581</b>  | <b>5,810</b>                        | <b>96,391</b>   |
| Profit for the year  | -                       | 49,670                      | -  | -  | 49,670   | 5,077                               | 54,747          |
| Translation of foreign subsidiary company                                      | -                       | -                           | -  | 97   | 97   | -                                   | 97              |
|  | -                       | <b>49,670</b>               | -  | <b>97</b>                                      | <b>49,767</b>  | <b>5,077</b>                        | <b>54,844</b>   |
| Payments of dividends:   |                         |                             |  |  |  |                                     |                 |
| - Equity holders of the parent (note 14)                                       | -                       | (4,657)                     | -  | -  | (4,657)  | -                                   | (4,657)         |
| - Non-controlling interest   | -                       | -                           | -  | -  | -  | (4,350)                             | (4,350)         |
| De-recognition of non-controlling interest arising on disposal of subsidiaries | -                       | -                           | -  | -  | -  | (6,601)                             | (6,601)         |
| Share options exercised by employees   | 2                       | -                           | -  | -  | 2  | -                                   | 2               |
| Issue of ordinary shares under employee share gift plan                        | 43                      | -                           | (43)   | -  | -  | -                                   | -               |
| Issue of shares  | 701                     | -                           | -  | -  | 701  | -                                   | 701             |
| Transaction costs (net of deferred tax)  | (12)                    | -                           | -  | -  | (12)   | -                                   | (12)            |
| Recognition of share based payments  | -                       | -                           | 669  | -  | 669  | -                                   | 669             |
| Transfer to retained earnings relating to divested foreign operations          | -                       | (1,711)                     | -  | 1,711  | -  | -                                   | -               |
| <b>Balance at 30 June 2016</b>   | <b>102,566</b>          | <b>30,940</b>               | <b>3,394</b>                                       | <b>151</b>                                     | <b>137,051</b>   | <b>(64)</b>                         | <b>136,987</b>  |
| Profit for the year  | -                       | 10,691                      | -  | -  | 10,691   | 64                                  | 10,755          |
| Translation of foreign subsidiary company                                      | -                       | -                           | -  | (1)  | (1)  | -                                   | (1)             |
|  | -                       | <b>10,691</b>               | -  | <b>(1)</b>                                     | <b>10,690</b>  | <b>64</b>                           | <b>10,754</b>   |
| Payments of dividends:   |                         |                             |  |  |  |                                     |                 |
| - Equity holders of the parent (note 14)                                       | -                       | (36,891)                    | -  | -  | (36,891)   | -                                   | (36,891)        |
| Share options exercised by employees   | 292                     | -                           | -  | -  | 292  | -                                   | 292             |
| Transfer of share options cost exercised by employees                          | 21                      | -                           | (21)   | -  | -  | -                                   | -               |
| Recognition of share based payments  | -                       | -                           | 716  | -  | 716  | -                                   | 716             |
| Transfer to retained earnings relating to divested foreign operations          | -                       | 150                         | -  | (150)  | -  | -                                   | -               |
| <b>Balance at 30 June 2017</b>   | <b>102,879</b>          | <b>4,890</b>                | <b>4,089</b>                                       | <b>-</b>                                       | <b>111,858</b>   | <b>-</b>                            | <b>111,858</b>  |

Notes to the financial statements are included on pages 29 to 62.

## Consolidated statement of cash flows for the year ended 30 June 2017

|   | Note | 2017<br>\$'000  | 2016<br>\$'000 |
|---|------|-----------------|----------------|
| <b>Cash flows from operating activities</b>                             |      |                 |                |
| Receipts from customers   |      | 21,052          | 22,571         |
| Payments to suppliers and employees                                     |      | (15,937)        | (12,398)       |
| Interest received   |      | 1,033           | 1,201          |
| Distributions received  |      | 5,007           | 4,403          |
| Interest and other costs of finance paid                                |      | (688)           | (1,409)        |
| Income taxes paid   |      | (1,306)         | (2,551)        |
| Net cash provided by operating activities                               | 23   | <u>9,161</u>    | <u>11,817</u>  |
| <b>Cash flows from investing activities</b>                             |      |                 |                |
| Payments for investments  |      | (31,111)        | (18,306)       |
| Proceeds on sale of investments   |      | 62,866          | 1,948          |
| Payments for property, plant and equipment                              |      | (240)           | (83)           |
| Payments for investment properties                                      |      | (7,396)         | (30,282)       |
| Proceeds from sale of investment properties                             |      | 15,691          | -              |
| Net cash inflow on disposal of subsidiaries                             | 30   | 5,995           | 58,243         |
| Payment to non-controlling shareholders of disposed subsidiaries        |      | (35,543)        | -              |
| Income taxes paid on investing activities                               |      | (10,169)        | -              |
| Net cash provided by investing activities                               |      | <u>93</u>       | <u>11,520</u>  |
| <b>Cash flows from financing activities</b>                             |      |                 |                |
| Proceeds from issue of equity securities                                |      | 292             | 703            |
| Share issuance costs paid   |      | -               | (17)           |
| (Repayments of) / proceeds from borrowings                              |      | (26,045)        | 36,575         |
| Dividends paid:   |      |                 |                |
| - Equity holders of the parent  | 14   | (36,891)        | (4,657)        |
| - Non-controlling interests   |      | -               | (4,350)        |
| Net cash (used in) / provided by financing activities                   |      | <u>(62,644)</u> | <u>28,254</u>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>             |      | (53,390)        | 51,591         |
| Net effect of foreign exchange translations                             |      | (1)             | 97             |
| <b>Cash and cash equivalents at the beginning of the financial year</b> |      | <u>72,031</u>   | <u>20,343</u>  |
| <b>Cash and cash equivalents at the end of the financial year</b>       | 23   | <u>18,640</u>   | <u>72,031</u>  |

Notes to the financial statements are included on pages 29 to 62.



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## 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 course of the financial year was the provision of funds management services.

### 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 23 August 2017.

#### 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. Statement of compliance (cont'd)

### 2.3 Foreign currencies

The functional currency of foreign subsidiaries is listed in note 29. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign subsidiaries are expressed in Australian dollars (the functional currency of the Company and the Group), using the exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as other comprehensive income and are accumulated in equity.

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 the above are recognised in the profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in a foreign subsidiary), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

On the disposal of a foreign operation (i.e. the disposal of the Group's entire interest in a foreign operation) the exchange differences accumulated in equity in respect of that operation that are attributable to the owners of the Company are reclassified to profit or loss.

### 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 notes to these financial statements 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 13 – Investment properties     | Fair value measurement and valuation processes |
| 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 more 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   |
|---|--|--|
| <b>Continuing operations</b>  |  |  |
| <ul style="list-style-type: none"> <li>▪ Real Estate Securities funds</li> </ul>                                | Property securities funds and investment mandates  | <ul style="list-style-type: none"> <li>▪ APN AREIT Fund</li> <li>▪ APN Property for Income Fund</li> <li>▪ APN Property for Income Fund No. 2</li> <li>▪ APN Asian REIT Fund</li> <li>▪ APN AREIT NZ PIE Fund</li> <li>▪ Property Securities Investment Mandates</li> <li>▪ APN Unlisted Property Fund (terminated)</li> </ul> |
| <ul style="list-style-type: none"> <li>▪ Industrial Real Estate fund</li> </ul>                                 | Listed real estate investment trust (REIT)   | <ul style="list-style-type: none"> <li>▪ Industria REIT (IDR)</li> </ul>   |
| <ul style="list-style-type: none"> <li>▪ Direct Real Estate funds</li> </ul>                                    | Fixed term Australian property funds   | <ul style="list-style-type: none"> <li>▪ APN Property Plus Portfolio</li> <li>▪ APN Regional Property Fund</li> <li>▪ APN Coburg North Retail Fund</li> <li>▪ APN Steller Development Fund</li> <li>▪ Convenience Retail REIT No.2</li> <li>▪ Newmark APN Auburn Property Fund (terminated)</li> </ul>                         |
|   | Wholesale property funds   | <ul style="list-style-type: none"> <li>▪ APN Development Fund No.2</li> </ul>  |
| <ul style="list-style-type: none"> <li>▪ Investment revenue</li> </ul>  | Investment and rental income received or receivable from investments <sup>(i)</sup>                                  |  |
| <b>Discontinued operations</b>  |  |  |
| <ul style="list-style-type: none"> <li>▪ European Real Estate funds</li> <li>▪ Healthcare Operations</li> </ul> | De-listed real estate investment trust (REIT), fixed term European property funds and divested Healthcare Operations | <ul style="list-style-type: none"> <li>▪ APN Champion Retail Fund</li> <li>▪ APN European Retail Property Group</li> <li>▪ APN Euro Property Fund (terminated)</li> </ul>  |

(i) Excludes the Group's investment in Generation Healthcare REIT.

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. Segment Information (cont'd)

##### 4.2 Segment 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<br>Year ended |                           | Segment net revenue <sup>(i)</sup><br>Year ended |                           | Segment profit<br>Year ended |                           |
|---|-------------------------------|---------------------------|--|---------------------------|------------------------------|---------------------------|
|   | 30 June<br>2017<br>\$'000     | 30 June<br>2016<br>\$'000 | 30 June<br>2017<br>\$'000                        | 30 June<br>2016<br>\$'000 | 30 June<br>2017<br>\$'000    | 30 June<br>2016<br>\$'000 |
| <b>Continuing operations</b>  |                               |                           |  |                           |                              |                           |
| Real estate securities funds  | 11,945                        | 10,953                    | 9,905  | 8,858                     | 4,233                        | 3,693                     |
| Industrial real estate fund   | 3,051                         | 2,386                     | 3,051  | 2,386                     | 1,440                        | 883                       |
| Direct real estate funds  | 3,392                         | 3,755                     | 3,328  | 3,347                     | 1,687                        | 1,939                     |
| Investment revenue  | 6,584                         | 2,787                     | 6,470  | 2,787                     | 6,470                        | 2,787                     |
|   | 24,972                        | 19,881                    | 22,754   | 17,378                    | 13,830                       | 9,302                     |
| <b>Unallocated revenue and expenses</b>                                       |                               |                           |  |                           |                              |                           |
| Finance income  |                               |                           |  |                           | 1,034                        | 1,274                     |
| Central administration  |                               |                           |  |                           | (3,384)                      | (3,862)                   |
| Depreciation and amortisation   |                               |                           |  |                           | (155)                        | (159)                     |
| Finance costs   |                               |                           |  |                           | (688)                        | (1,242)                   |
| Share of joint venture results  |                               |                           |  |                           | -                            | (2)                       |
|   | 24,972                        | 19,881                    | 22,754   | 17,378                    | 10,637                       | 5,311                     |
| Income tax expense  |                               |                           |  |                           | (3,317)                      | (1,559)                   |
| <b>Net operating earnings after tax &amp; Non-controlling interests (NCI)</b> |                               |                           |  |                           | <b>7,320</b>                 | <b>3,752</b>              |
| Pre-tax fair value adjustments / business acquisition costs                   |                               |                           |  |                           | 4,662                        | 4,505                     |
| Income tax expense  |                               |                           |  |                           | (1,349)                      | (971)                     |
|   |                               |                           |  |                           | 3,313                        | 3,534                     |
| <b>Total - Continuing operations</b>  | <b>24,972</b>                 | <b>19,881</b>             | <b>22,754</b>                                    | <b>17,378</b>             | <b>10,633</b>                | <b>7,286</b>              |
| <b>Discontinued operations</b>  |                               |                           |  |                           |                              |                           |
| European real estate funds  | 18                            | 259                       | 18   | 259                       | (264)                        | (84)                      |
| Healthcare real estate fund <sup>(ii)</sup>                                   | 186                           | 18,934                    | 186  | 16,137                    | 701                          | 13,843                    |
| Income tax expense  |                               |                           |  |                           | (70)                         | (4,321)                   |
| Non-controlling interests   |                               |                           |  |                           | (64)                         | (2,828)                   |
|   |                               |                           |  |                           | 303                          | 6,610                     |
| Pre-tax fair value adjustments / gain on disposal of co-investments           |                               |                           |  |                           | (349)                        | 16,581                    |
| Gain on disposal of subsidiaries (note 30)                                    |                               |                           |  |                           | -                            | 31,592                    |
| Income tax expense  |                               |                           |  |                           | 104                          | (10,150)                  |
| Non-controlling interests   |                               |                           |  |                           | -                            | (2,249)                   |
|   |                               |                           |  |                           | 58                           | 42,384                    |
| <b>Total</b>  | <b>25,176</b>                 | <b>39,074</b>             | <b>22,958</b>                                    | <b>33,774</b>             | <b>10,691</b>                | <b>49,670</b>             |

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

(ii) This segment was discontinued following the disposal of subsidiaries on 27 June 2016.

The revenue reported above includes revenue generated from related parties of \$22,959,000 (2016: \$38,449,000) and revenue from external parties of \$2,217,000 (2016: \$625,000). 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 period.

Segment profit represents the profit earned by each reportable operating segment without allocation of corporate 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. Segment Information (cont'd)

##### 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 detailed as below:

| Revenue from major customers                                     | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Customer A included in revenue from Real estate securities funds | 9,455          | 8,019          |
| Customer B included in revenue from Healthcare real estate fund  | -              | 18,934         |
| Customer C included in revenue from Industrial real estate fund  | 7,134          | 4,987          |
| Customer D included in investment income                         | 1,535          | -              |

#### 5. Revenue

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

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Fund management fees                     | 15,003         | 12,963         |
| Performance and transaction fees         | 845            | 1,007          |
| Asset and project management fees        | 203            | 77             |
| Rental income from investment properties | 1,899          | 570            |
| Registry and other income                | 2,432          | 2,477          |
|  | 20,382         | 17,094         |
| Distribution income <sup>(i) (ii)</sup>  | 4,590          | 2,787          |
|  | 24,972         | 19,881         |

(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 \$4,588,000 (2016: \$2,787,000)

See note 4.2 for an analysis of revenue by product.

#### Recognition and measurement

Revenue is recognised on an accruals basis, as soon as it becomes due and receivable, at the fair value of the consideration received or receivable (net of GST).

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. Financing income and costs

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Continuing operations</b>                        |                |                |
| <b>6.1 Finance income:-</b>                         |                |                |
| Bank deposits                                       | 822            | 277            |
| Coupon interest associated with investment property | 212            | 997            |
|   | <u>1,034</u>   | <u>1,274</u>   |
| <b>6.2 Finance costs:-</b>                          |                |                |
| Loan  | (673)          | (972)          |
| Related party loan (note 31)                        | -              | (261)          |
| Bank charges  | (15)           | (9)            |
|   | <u>(688)</u>   | <u>(1,242)</u> |

### 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

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Continuing operations</b>  |                |                |
| 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                           | (155)          | (159)          |
| Employee benefits expenses:   |                |                |
| Salaries and wages  | (6,662)        | (5,807)        |
| Superannuation contributions  | (469)          | (442)          |
| Equity-settled share based payment transactions   | (716)          | (623)          |
| Provision for long service and annual leave   | 30             | (32)           |
| Termination benefits  | (7)            | (7)            |
| Operating lease expense   | (477)          | (958)          |
| Gain on disposal of property, plant and equipment   | 1              | -              |
| Doubtful debts (allowance)/recovered  | (15)           | -              |
| Net foreign exchange (losses)/gain  | (2)            | 1              |
| Share of loss from joint ventures   | -              | (2)            |
| Direct operating expenses incurred from income generating investment properties             | (114)          | (15)           |
| (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 | 3,027          | 4,406          |
| Change in fair value of investment properties – unrealised (note 13)                        | -              | 524            |
| Gain on disposal of investment properties   | 1,840          | -              |
| Business development / acquisition costs  | (205)          | (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 the 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

|   | 2017<br>\$'000 | 2016<br>\$'000  |
|---|----------------|-----------------|
| Tax (expense)/income comprises:   |                |                 |
| Current tax (expense)/income  | (7,709)        | (8,177)         |
| Adjustments recognised in the current year in relation to prior years                           | 211            | (93)            |
| Deferred tax (expense)/income relating to the origination and reversal of temporary differences | 2,866          | (8,731)         |
| Total tax (expense)/income  | <u>(4,632)</u> | <u>(17,001)</u> |
| Attributable to:  |                |                 |
| Continuing operations   | (4,666)        | (2,530)         |
| Discontinued operations   | 34             | (14,471)        |
|   | <u>(4,632)</u> | <u>(17,001)</u> |
| The expense for the year can be reconciled to the accounting profit as follows:                 |                |                 |
| Profit/(Loss) from operations   | 15,387         | 77,672          |
| Income tax (expense)/income calculated at 30%   | (4,616)        | (23,302)        |
| Effect of different tax rate of subsidiaries operating in other jurisdictions                   | 8              | (17)            |
| Effect of income that is exempt from income tax   | 130            | 9,923           |
| Effect of unused tax losses not recognised as deferred tax assets                               | -              | (26)            |
| Effect of expenses that are not deductible in determining taxable profit                        | (365)          | (807)           |
| Effect of previously unrecognised capital losses now recognised as deferred tax assets          | -              | (2,679)         |
|   | <u>(4,843)</u> | <u>(16,908)</u> |
| Adjustments recognised in the current year in relation to the current tax of prior years        | 211            | (93)            |
|   | <u>(4,632)</u> | <u>(17,001)</u> |

The tax rate used in the above reconciliation, other than for subsidiaries operating in other jurisdictions, is the corporate tax rate of 30% payable on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

For subsidiaries incorporated in other jurisdictions, the tax rate used in the above reconciliation is the corporate tax rate of 17% payable by subsidiaries incorporated in Singapore (2016: 17% and 20% payable by subsidiaries incorporated in Singapore and United Kingdom respectively).

### 8.2 Income tax recognised directly in equity

During the year, deferred tax assets of \$nil (2016: \$5,000) arising from capital raising costs were recognised directly in equity.

### 8.3 Current tax assets and liabilities

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Income tax attributable to entities in the tax-consolidated group | (1,629)        | (5,606)        |

### 8.4 Deferred tax balances

| 2017<br>Temporary differences                         | Opening<br>balance<br>\$'000 | Recognised<br>in profit and<br>loss<br>\$'000 | Recognised<br>directly in<br>equity<br>\$'000 | Disposals<br>\$'000 | Closing<br>balance<br>\$'000 |
|---|------------------------------|---|---|---------------------|------------------------------|
| Provisions and accruals                               | 1,024                        | 269   | -   | -                   | 1,293                        |
| Property, plant and equipment / Investment properties | (200)                        | (36)  | -   | -                   | (236)                        |
| Capital raising costs recognised directly in equity   | 333                          | (120)   | -   | -                   | 213                          |
| Intangible assets                                     | (510)                        | -   | -   | -                   | (510)                        |
| Unrealised gains on revaluation of investments        | (4,896)                      | 2,753   | -   | -                   | (2,143)                      |
| Net deferred tax assets / (liabilities)               | <u>(4,249)</u>               | <u>2,866</u>                                  | <u>-</u>                                      | <u>-</u>            | <u>(1,383)</u>               |



## 8. Income taxes (cont'd)

### 8.4 Deferred tax balances (cont'd)

| 2016  | Opening balance | Recognised in profit and loss | Recognised directly in equity | Disposals | Closing balance |
|---|-----------------|-------------------------------|-------------------------------|-----------|-----------------|
| Temporary differences                                 | \$'000          | \$'000                        | \$'000                        | \$'000    | \$'000          |
| Provisions and accruals                               | 1,175           | (2,695)                       | –                             | 2,544     | 1,024           |
| Property, plant and equipment / Investment properties | 35              | (235)                         | –                             | –         | (200)           |
| Capital raising costs recognised directly in equity   | 464             | (135)                         | 5                             | (1)       | 333             |
| Intangible assets                                     | (510)           | –                             | –                             | –         | (510)           |
| Unrealised gains on revaluation of investments        | (248)           | (4,648)                       | –                             | –         | (4,896)         |
| Unused tax losses recognised                          | 1,018           | (1,018)                       | –                             | –         | –               |
| Net deferred tax assets / (liabilities)               | 1,934           | (8,731)                       | 5                             | 2,543     | (4,249)         |

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

|                          | 2017    | 2016    |
|--------------------------|---------|---------|
|                          | \$'000  | \$'000  |
| Deferred tax liabilities | (1,383) | (4,249) |

### 8.5 Unrecognised deferred tax assets at the reporting date

|                    | 2017   | 2016   |
|--------------------|--------|--------|
|                    | \$'000 | \$'000 |
| Revenue tax losses | –      | 218    |

The amounts disclosed in the table above were not recognised due to uncertainty over future taxable profits in the respective subsidiaries.

## 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, carried forward unused tax assets and 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. Income taxes (cont'd)

### 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

Healthcare real estate fund segment and the associate co-investment in Generation Healthcare REIT were classified as discontinued operations following the disposal of subsidiaries on 27 June 2016.

European real estate funds segment continues to be wound down during the year. It is anticipated that it will take a number of years to complete this process.

#### 9.1 Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the profit for the financial year are set out below. The comparative profit and cash flows included the combined results of the discontinued operations (i.e. Healthcare real estate fund segment, Healthcare co-investment stake and European real estate funds).

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Profit for the financial year from discontinued operations           |                |                |
| Revenue  | 204            | 19,193         |
| Direct expenses  | -              | (2,797)        |
|  | 204            | 16,396         |
| Expenses (incurred) / reversed                                       | 233            | (2,637)        |
| Profit / (loss) before tax   | 437            | 13,759         |
| Attributable income tax expense                                      | (70)           | (4,321)        |
|  | 367            | 9,438          |
| Gain from fair value adjustment of co-investment stake               | -              | 16,438         |
| (Loss) / gain on disposal of co-investment stake                     | (349)          | 143            |
| Gain on disposal of subsidiaries (note 30)                           | -              | 31,592         |
| Attributable tax (expense) / income                                  | 104            | (10,150)       |
|  | (245)          | 38,023         |
| Profit after tax for the financial year from discontinued operations | 122            | 47,461         |
| Attributable to:   |                |                |
| - equity holders of the parent                                       | 58             | 42,384         |
| - non-controlling interests  | 64             | 5,077          |
| Cash flows from discontinued operations                              |                |                |
| Net cash flow from operation activities                              | (101)          | 402            |
| Net cash flow from investing activities                              | 21,590         | 3,893          |
| Net cash flow from financing activities                              | -              | (4,375)        |
| Net cash inflows/(outflows)  | 21,489         | (80)           |

## Capital Investment

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

### 10. Financial assets

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Current assets – Financial assets held for sale (i)                  | –              | 62,990         |
| Non-current assets – Financial assets (ii)                           | 77,820         | 43,924         |
| Financial assets carried at fair value through profit and loss (iii) | 77,820         | 106,914        |

- (i) On 8 August 2016, the put and call option deed signed on 27 June 2016 over 26,719,378 units at \$2.20 per unit in Generation Healthcare REIT (GHC) was exercised, with total consideration of \$58,783,000 being received.
- (ii) No co-investments in related parties have been pledged to secure borrowings of the Group (2016: \$49,312,000) (note 16).
- (iii) Included are co-investments in related parties amounting to \$77,791,000 (2016: \$106,903,000) (note 31.2)

### 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 or designated as at fair value through profit or loss. A financial asset is classified as held for trading 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<br>rights<br>\$'000 | Software<br>\$'000 | Total<br>\$'000 |
|---|--------------------------------|--------------------|-----------------|
| <b>Gross carrying amount</b>                        |                                |                    |                 |
| Balance at 1 July 2015                              | 3,953                          | 765                | 4,718           |
| Additions   | –                              | 3                  | 3               |
| Write-off   | –                              | (313)              | (313)           |
| Derecognised during the year (i)                    | (2,253)                        | –                  | (2,253)         |
| <b>Balance at 30 June 2016</b>                      | 1,700                          | 455                | 2,155           |
| Additions   | –                              | 43                 | 43              |
| Write-off   | –                              | (39)               | (39)            |
| <b>Balance at 30 June 2017</b>                      | 1,700                          | 459                | 2,159           |
| <b>Accumulated amortisation / impairment losses</b> |                                |                    |                 |
| Balance at 1 July 2015                              | –                              | (666)              | (666)           |
| Depreciation expense                                | –                              | (42)               | (42)            |
| Write-off   | –                              | 313                | 313             |
| <b>Balance at 30 June 2016</b>                      | –                              | (395)              | (395)           |
| Depreciation expense                                | –                              | (45)               | (45)            |
| Write-off   | –                              | 39                 | 39              |
| <b>Balance at 30 June 2017</b>                      | –                              | (401)              | (401)           |
| <b>Net book value</b>                               |                                |                    |                 |
| As at 30 June 2016                                  | 1,700                          | 60                 | 1,760           |
| As at 30 June 2017                                  | 1,700                          | 58                 | 1,758           |

- (i) In 2016, the Group derecognised management rights totalling \$2,253,000 following their divestment as part of the Healthcare real estate fund management disposal (note 30).

## 11. Intangible assets (cont'd)

### 11.1 Management Rights impairment assessment

During the year the Group assessed the recoverable amount of management rights associated with the Group's management of Industria REIT of \$1,700,000 (2016: \$1,700,000). No impairment adjustment was recorded in the current year (2016: \$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 Industria REIT is subject to a number of key estimates and assumptions. The 5 year cashflow forecasts are based on past experiences, 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:

|  | Industria REIT |       |
|--|----------------|-------|
|  | 2017           | 2016  |
| Discount rate (post tax)                                 | 10.5%          | 10.1% |
| Growth rate beyond 5 year plan                           | 2.1%           | 1.8%  |
| Head room as percentage of the CGU's net carrying amount | 86.9%          | 68.9% |

Management believe that any reasonably possible change in the key assumptions on which the recoverable amount is based on 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 | Property under construction \$'000 | Total \$'000 |
|---|---------------------------------------|------------------------------------|------------------------------------|--------------|
| <b>Gross carrying amount</b>                        |                                       |                                    |                                    |              |
| Balance at 1 July 2015                              | 426                                   | 1,444                              | 1,577                              | 3,447        |
| Additions   | -                                     | 80                                 | -                                  | 80           |
| Transfer to Investment Properties (note 13)         | -                                     | -                                  | (1,577)                            | (1,577)      |
| Write-off / Disposal                                | (69)                                  | (775)                              | -                                  | (844)        |
| <b>Balance at 30 June 2016</b>                      | <b>357</b>                            | <b>749</b>                         | <b>-</b>                           | <b>1,106</b> |
| Additions   | 164                                   | 33                                 | -                                  | 197          |
| Write-off / Disposal                                | (48)                                  | (342)                              | -                                  | (390)        |
| <b>Balance at 30 June 2017</b>                      | <b>473</b>                            | <b>440</b>                         | <b>-</b>                           | <b>913</b>   |
| <b>Accumulated amortisation / impairment losses</b> |                                       |                                    |                                    |              |
| Balance at 1 July 2015                              | (424)                                 | (1,235)                            | -                                  | (1,659)      |
| Depreciation expense                                | (1)                                   | (117)                              | -                                  | (118)        |
| Write-off / Disposal                                | 69                                    | 775                                | -                                  | 844          |
| <b>Balance at 30 June 2016</b>                      | <b>(356)</b>                          | <b>(577)</b>                       | <b>-</b>                           | <b>(933)</b> |
| Depreciation expense                                | (1)                                   | (109)                              | -                                  | (110)        |
| Write-off / Disposal                                | 48                                    | 342                                | -                                  | 390          |
| <b>Balance at 30 June 2017</b>                      | <b>(309)</b>                          | <b>(344)</b>                       | <b>-</b>                           | <b>(653)</b> |
| <b>Net book value</b>                               |                                       |                                    |                                    |              |
| As at 30 June 2016                                  | 1                                     | 172                                | -                                  | 173          |
| As at 30 June 2017                                  | 164                                   | 96                                 | -                                  | 260          |

### 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 and the carrying amount of the asset and is recognised in profit or loss.

### 13. Investment properties

|   | Carrying amount |               |
|---|-----------------|---------------|
|   | 2017            | 2016          |
|   | \$'000          | \$'000        |
| <b>Balance at beginning of financial year</b>         | 38,050          | -             |
| Transfer from property, plant and equipment (note 12) | -               | 1,577         |
| Additions   | -               | 35,897        |
| Disposals (i)   | (13,850)        | -             |
| Straight line lease revenue recognition               | -               | 52            |
| Change in fair value – unrealised (note 7)            | -               | 524           |
| <b>Balance at end of financial year</b>               | <b>24,200</b>   | <b>38,050</b> |

- (i) On 9 November 2016, 126A, River Hills Road, Eagleby, QLD was sold for \$4,850,000 compared to its carrying value of \$4,600,000 at 30 June 2016. On 15 December 2016, Lot 1, 190-198 Princess Highway, South Nowra, NSW, was sold for \$11,320,000 compared to its carrying value of \$9,250,000 at 30 June 2016.

#### 13.1 Individual valuation and carrying amounts

|  | Ownership interest | Latest external valuation |                  | Carrying amount |               | Capitalisation rate |        | Discount rate |        |
|--|--------------------|---------------------------|------------------|-----------------|---------------|---------------------|--------|---------------|--------|
|  |                    | Date                      | Valuation \$'000 | 2017 \$'000     | 2016 \$'000   | 2017 %              | 2016 % | 2017 %        | 2016 % |
| <b>Commercial property(i)</b>                            |                    |                           |                  |                 |               |                     |        |               |        |
| Lot 2, 190-198 Princes Highway, South Nowra, NSW (ii)    | 100%               | Dec 16                    | 24,200           | 24,200          | 24,200        | 7.00%               | 7.00%  | 8.00%         | 8.00%  |
| 126A, River Hills Road, Eagleby, QLD                     | -                  | -                         | -                | -               | 4,600         | -                   | 6.25%  | -             | -      |
| Part of Lot 1, 190-198 Princes Highway, South Nowra, NSW | -                  | -                         | -                | -               | 6,250         | -                   | 6.00%  | -             | -      |
| Part of Lot 1, 190-198 Princes Highway, South Nowra, NSW | -                  | -                         | -                | -               | 3,000         | -                   | 5.50%  | -             | -      |
| <b>Total</b>   |                    |                           |                  | <b>24,200</b>   | <b>38,050</b> |                     |        |               |        |

The fair value of investment properties at 30 June 2017 have been determined based on Directors' valuation.

- (i) Current use equates to the highest and best use.  
(ii) The above investment properties have been pledged (first ranking mortgages) to secure borrowings of the Group (note 16).

#### 13.2 Lease as lessor

The Company leases out its investment property under long-term operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

| <b>Non-cancellable operating lease commitments:</b> | Less than 1 year<br>\$'000 | 1-5 years<br>\$'000 | Longer than 5 years<br>\$'000 | Total<br>\$'000 |
|---|----------------------------|---------------------|-------------------------------|-----------------|
| <b>2017</b>   |                            |                     |                               |                 |
| <i>Lease receivable</i>                             | 1,754                      | 8,789               | 14,255                        | 24,798          |
| <b>2016</b>   |                            |                     |                               |                 |
| <i>Lease receivable</i>                             | 2,369                      | 13,293              | 25,140                        | 40,801          |

#### 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 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.

The Group's external valuations are performed by independent professionally qualified Valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued. Internal valuations have been performed by the Group's internal property team and reviewed and accepted by the Board.

### 13. Investment Properties (cont'd)

#### Valuation process (cont'd)

The adopted fair value is generally a 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.

#### Key estimates and assumptions – Fair value measurements and valuation process

The determination of the fair value of investment property is subject to a number of key estimates and assumptions. In determining the appropriate classes of investment property, management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation for investment properties is generally the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. The DCF and income capitalisation methods use unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

| Fair value hierarchy | Fair value at 30 June 2017<br>\$'000 | Valuation technique                  | Inputs used to measure fair value   | Range of unobservable inputs 30 June 2017 |
|----------------------|--------------------------------------|--------------------------------------|---|---|
| Level 3              | 24,200                               | DCF and income capitalisation method | Net passing rent - \$/sqm<br>Net market rent - \$/sqm<br>Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | \$130<br>\$130<br>7.00%<br>8.00%<br>7.50% |

A definition is provided below for each of the inputs used to measure fair value:

|                                |  |
|--------------------------------|--|
| Discounted cash flow (DCF)     | Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the assets life including an exit or terminal value. The DCF method involves a projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property. |
| Income capitalisation approach | This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure, income reversions, periods of vacancy and tenant incentives.   |
| Net passing rent               | Net passing rent is the contracted amount for which a property or space within a property is leased. The owner recovers outgoings from the tenant on a pro-rata basis (where applicable).  |
| Net market rent                | A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. The owner recovers outgoings from the tenant on a pro-rata basis (where applicable).   |
| Adopted capitalisation rate    | The rate at which net market income is capitalised to determine the core value of a property, being the value prior to the allowances for capital expenditure, income reversions, periods of vacancy and tenant incentives. The rate is determined with regards to market evidence and the prior external valuation.   |
| Adopted discount rate          | The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.   |
| Adopted terminal yield         | The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence and the prior external valuation.   |

### 13. Investment Properties (cont'd)

#### Sensitivity analysis

Generally, a change in the assumption made for the adopted capitalisation rates is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach. The midpoint of the two valuations is then generally adopted.

| Significant inputs          | Fair value measurement sensitivity to significant increase in input | Fair value measurement sensitivity to significant decrease in input |
|-----------------------------|---|---|
| Net passing rent - \$/sqm   | Increase  | Decrease  |
| Net market rent - \$/sqm    | Increase  | Decrease  |
| Adopted capitalisation rate | Decrease  | Increase  |
| Adopted discount rate       | Decrease  | Increase  |
| Adopted terminal yield      | Decrease  | Increase  |

When calculating a valuation under the income capitalisation approach, the net market income has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property, capitalising this in perpetuity and then making a series of allowances (capital expenditure, income reversions, periods of vacancy and tenant incentives), to derive a capital value. In theory, an increase in the net market rent and increase (softening) in the adopted capitalisation rate could potentially offset the impact to fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When calculating a valuation under the discounted cash flow approach, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to fair value.



## 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

|   | 2017            |              | 2016            |              |
|---|-----------------|--------------|-----------------|--------------|
|   | Cents per share | Total \$'000 | Cents per share | Total \$'000 |
| <b>Fully paid ordinary shares</b>                 |                 |              |                 |              |
| Recognised amounts:                               |                 |              |                 |              |
| Interim dividend: Fully franked at a 30% tax rate | 1.25            | 3,922        | 1.25            | 3,902        |
| Unrecognised amounts                              |                 |              |                 |              |
| Final dividend: Fully franked at a 30% tax rate   | 0.75            | 2,353        | 0.50            | 1,570        |
| Special dividend: Fully franked at 30% tax rate   | -               | -            | 10.00           | 31,399       |

The directors have declared a fully franked final dividend of 0.75 cents per share for the year ended 30 June 2017 (2016: fully franked final dividend of 0.50 cents per share and fully franked special dividend of 10.00 cents per share). This will be paid on 28 September 2017 to those investors registered on 11 September 2017.

|  | Company      |                |
|--|--------------|----------------|
|  | 2017 \$'000  | 2016 \$'000    |
| Adjusted franking account balance                              | 2,508        | 10,820         |
| Impact on franking account balance of dividends not recognised | (1,008)      | (14,130)       |
|  | <b>1,500</b> | <b>(3,310)</b> |

### 15. Earnings per share

|  | 2017        | 2016         |
|--|-------------|--------------|
| Basic earnings per share (cents per share)   |             |              |
| From continuing operations                   | 2.82        | 2.40         |
| From discontinued operations                 | 0.02        | 14.56        |
|  | <b>2.84</b> | <b>16.96</b> |
| Diluted earnings per share (cents per share) |             |              |
| From continuing operations                   | 2.77        | 2.38         |
| From discontinued operations                 | 0.02        | 14.22        |
|  | <b>2.79</b> | <b>16.60</b> |

#### 15.1 Basic earnings per share

|  | 2017 \$'000  | 2016 \$'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   | 10,691       | 49,670       |
| Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations  | (58)         | (42,384)     |
| 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 | (2,359)      | (295)        |
| Earnings used in the calculation of basic EPS from continuing operations   | <b>8,274</b> | <b>6,991</b> |

#### 15.2 Diluted earnings per share

|  | 2017 \$'000  | 2016 \$'000  |
|--|--------------|--------------|
| The earnings used in the calculation of diluted earnings per share is as follows:  |              |              |
| Earnings used in the calculation of basic EPS  | 8,274        | 6,991        |
| 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 | 89           | 91           |
| Earnings used in the calculation of diluted EPS from continuing operations   | <b>8,363</b> | <b>7,082</b> |

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

|   | 2017 '000      | 2016 '000      |
|---|----------------|----------------|
| <b>Basic EPS</b> - Weighted average number of ordinary shares used in the calculation   | <b>293,891</b> | <b>291,204</b> |
| Shares deemed to be issued for no consideration in respect of employee options          | 7,901          | 6,758          |
| <b>Diluted EPS</b> - Weighted average number of ordinary shares used in the calculation | <b>301,792</b> | <b>297,962</b> |

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

|               |        |        |
|---------------|--------|--------|
| Share options | 12,856 | 14,594 |
|---------------|--------|--------|

## 16. Borrowings

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| <b>Current financial liabilities: Secured – at amortised costs</b> |                |                |
| Secured bank loans (i)   | 10,530         | 21,575         |
| Unamortised borrowing costs  | (74)           | (167)          |
| Secured bank loans (ii)  | –              | 15,000         |
|  | <b>10,456</b>  | <b>36,408</b>  |
| <b>Total facilities available:</b>                                 |                |                |
| Secured bank loans   | 10,530         | 40,825         |
| Business card facility   | 200            | 200            |
| Bank guarantee   | 500            | 500            |
|  | <b>11,230</b>  | <b>41,525</b>  |
| <b>Facilities utilised at balance date:</b>                        |                |                |
| Secured bank loans   | 10,530         | 36,575         |
| Business card facility   | 147            | 173            |
| Bank guarantee   | 500            | 500            |
|  | <b>11,177</b>  | <b>37,248</b>  |
| <b>Facilities not utilised at balance date:</b>                    |                |                |
| Secured bank loans   | –              | 4,250          |
| Business card facility   | 53             | 27             |
| Bank guarantee   | –              | –              |
|  | <b>53</b>      | <b>4,277</b>   |

During the period, the Groups' loans were:-

(i) Secured bill acceptance/discount facilities:-

Facility 1: The 3 year \$3,097,000 fully drawn bill acceptance/discount facility secured against 126A, River Hills Road, Eagleby, QLD, was fully repaid from the net proceeds received from the sale of the property in November 2016. The weighted average effective interest rate for this loan was 3.71% per annum.

Facility 2: The 3 year \$22,750,000 bill acceptance/discount facility secured against Lots 1 and 2, 190-198 Princess Highway, South Nowra, NSW (refer note 13 for details) was fully drawn during the period before being partially repaid in November/December 2016 from the net proceeds received from the sale of Lot 1, 190-198 Princess Highway, South Nowra, NSW. As at 30 June 2017, the balance outstanding (and facility limit) is \$10,530,000, with a weighted average effective interest rate of 3.38% per annum, matures in November 2018 and is subject to the following financial covenants:

- Term facility (effective from partial repayment of the loan):
- o Loan to value ratio will not exceed 48%; and
  - o Interest cover ratio will not fall below 2.0 times

(ii) The bank loan of \$15,000,000, secured by other financial assets with carrying amount of \$49,312,000 (note 10), was fully repaid on 17 July 2016. The weighted average effective interest rate on this bank loan was 5.36% per annum.

### **Recognition and measurement**

All bank loans are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit and loss when liabilities are 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<br>'000 | \$'000         |
|--|--------------------------|----------------|
| <b>Balance at 1 July 2015</b>                                      | <b>302,090</b>           | <b>101,832</b> |
| Dividend reinvestment plan   | 1,791                    | 701            |
| Share issue transaction costs                                      | –                        | (17)           |
| Income tax benefit relating to transaction costs                   | –                        | 5              |
| Share options exercised by employees                               | –                        | 2              |
| Share issue under Employee Share Gift Plan                         | 112                      | 43             |
| Issue of shares under the APN Employee Performance Securities Plan | 10,000                   | –              |
| <b>Balance at 30 June 2016</b>                                     | <b>313,993</b>           | <b>102,566</b> |
| Share options exercised by employees                               | –                        | 292            |
| Transfer of share options costs exercised by employees             | –                        | 21             |
| Share option buy-back under the APN Employee Share Plan            | (250)                    | –              |
| <b>Balance at 30 June 2017</b>                                     | <b>313,743</b>           | <b>102,879</b> |

### 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 direct issue costs.

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

- During the year, the Company cancelled 250,000 shares issued under the APN Employee Share Plan (2016: nil).
- During the year, there was no new shares issued (2016: 1,791,000 new shares at 39 cents per share pursuant to a placement and entitlement offer), no shares issued to eligible employees under the APN Property Group Employee Share Gift Plan (2016: 112,000) and no shares issued (2016: 10,000,000 shares) to key management personnel under the APN Employee Performance Securities Plan (EPSP).

At 30 June 2017, fully paid ordinary shares of 313,742,812 (2016: 313,992,812) included 19,779,913 (2016: 21,294,267) treasury shares relating to Employee Share Plans.

## 18. Reserves

|   | Equity compensation reserve |                | Foreign currency translation reserve |                | Total          |                |
|---|-----------------------------|----------------|--------------------------------------|----------------|----------------|----------------|
|   | 2017<br>\$'000              | 2016<br>\$'000 | 2017<br>\$'000                       | 2016<br>\$'000 | 2017<br>\$'000 | 2016<br>\$'000 |
| Balance at beginning of financial year                                | 3,394                       | 2,768          | 151                                  | (1,657)        | 3,545          | 1,111          |
| Share-based payment   | 716                         | 669            | –                                    | –              | 716            | 669            |
| Transfer of share options cost exercised by employees                 | (21)                        | –              | –                                    | –              | (21)           | –              |
| Transfer to retained earnings relating to divested foreign operations | –                           | –              | (150)                                | 1,711          | (150)          | 1,711          |
| Issue of ordinary shares under employee share gift plan               | –                           | (43)           | –                                    | –              | –              | (43)           |
| Translation of foreign operations                                     | –                           | –              | (1)                                  | 97             | (1)            | 97             |
| Balance at end of financial year                                      | 4,089                       | 3,394          | –                                    | 151            | 4,089          | 3,545          |

### 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 incentive plans. Amounts are transferred out of the reserve and into 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.

#### Foreign currency translation reserve

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

## 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 2016.

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 and issuing / buying-back shares.

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 2017 the gearing ratio, calculated as debt to shareholders equity, was 9.3% (2016: 26.6%). This is calculated as follows:

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Debt (short term borrowings (note 16))                          | 10,456         | 36,408         |
| Equity (includes share capital, reserves and retained earnings) | 111,858        | 136,987        |
| Debt to equity ratio  | 9.3%           | 26.6%          |

## 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 risk

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 risk

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 \$7,779,000 (2016: \$10,691,000).

### 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 2017, the Group's banking facilities are disclosed in note 16.

## 20. Financial risk management (cont'd)

### 20.4 Liquidity risk management (cont'd)

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.

|   | Weighted average effective interest rate % | Less than 1 year \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | 5+ years \$'000 | Total \$'000  |
|---|--|-------------------------|------------------|------------------|-----------------|---------------|
| <b>2017</b>                                     |  |                         |                  |                  |                 |               |
| Non-interest bearing – trade and other payables | –  | 2,684                   | –                | –                | –               | 2,684         |
| Bank loan                                       | 3.38%                                      | 10,530                  | –                | –                | –               | 10,530        |
|   |  | <u>13,214</u>           | <u>–</u>         | <u>–</u>         | <u>–</u>        | <u>13,214</u> |
| <b>2016</b>                                     |  |                         |                  |                  |                 |               |
| Non-interest bearing – trade and other payables | –  | 39,365                  | 3,447            | –                | –               | 42,812        |
|   |  | <u>39,365</u>           | <u>3,447</u>     | <u>–</u>         | <u>–</u>        | <u>42,812</u> |

### 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. Investments are allowed only in liquid securities and only with counterparties that have a sound credit rating. 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 2017 there are no interest rate swaps in place (2016: 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 profit for the year ended 30 June 2017 would increase/decrease by \$41,000 (2016: \$177,000).

### 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, 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.

## 20. Financial risk management (cont'd)

### **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 | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| <b>2017</b>   |                   |                   |                   |                 |
| Financial assets                                      | 62,217            | –                 | 15,603            | 77,820          |
| <b>2016</b>   |                   |                   |                   |                 |
| Financial assets                                      | 100,781           | –                 | 6,133             | 106,914         |

There were no transfers between Level 1, 2 and 3 during the year. The following table reconciles the movement of Level 3 financial assets for the period:

| Fair value through profit or loss                          | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Balance at beginning of financial year                     | 6,133          | 1,147          |
| Total gains/(losses) recognised in profit or loss (note 7) | (473)          | (61)           |
| Purchases  | 9,943          | 5,047          |
| Balance at end of financial year                           | 15,603         | 6,133          |

## 21. Commitments

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

|  | Less than<br>1 year<br>\$'000 | 1-5 years<br>\$'000 | Longer<br>than 5<br>years<br>\$'000 | Total<br>\$'000 |
|--|-------------------------------|---------------------|-------------------------------------|-----------------|
| <b>2017</b>  |                               |                     |                                     |                 |
| <b>At call investment commitments:</b>                     |                               |                     |                                     |                 |
| <i>Investment commitments to APN Development Fund No.2</i> | 381                           | –                   | –                                   | 381             |
| <b>Capital expenditure commitments:-</b>                   |                               |                     |                                     |                 |
| <i>Leasehold improvements under construction</i>           | 164                           | –                   | –                                   | 164             |
| <i>Investment properties<sup>(i)</sup></i>                 | 12,584                        | –                   | –                                   | 12,584          |
| <b>Non-cancellable operating lease commitments:</b>        |                               |                     |                                     |                 |
| <i>Property lease</i>                                      | 74                            | 1,852               | 1,306                               | 3,232           |
|  | 13,203                        | 1,852               | 1,306                               | 16,361          |
| <b>2016</b>  |                               |                     |                                     |                 |
| <b>At call investment commitments:</b>                     |                               |                     |                                     |                 |
| <i>Investment commitments to APN Development Fund No.2</i> | 381                           | –                   | –                                   | 381             |
| <b>Non-cancellable operating lease commitments:</b>        |                               |                     |                                     |                 |
| <i>Property lease</i>                                      | 1,015                         | 1,056               | –                                   | 2,071           |
|  | 1,396                         | 1,056               | –                                   | 2,452           |

(i) Represents the remaining settlement payment associated with an agreement to purchase an investment property where the Group had paid a deposit of \$3,146,000 (note 24). The agreement was terminated by the vendor in July 2017 (note 34) with all amounts paid refunded.

## **22. Contingents assets and liabilities**

### **22.1 Contingent assets**

#### **Leasing fees from Industria REIT**

The Group provides leasing services to its managed funds and was entitled to charge market based fees amounting to \$517,000 (2016: \$517,000). While APN Funds Management Limited remains the responsible entity of the relevant managed fund, these fees will not be charged.

#### **Performance entitlements from APN Development Fund No.2**

APN Funds Management Limited, a wholly owned subsidiary of the Company and fund manager of APN Development Fund No.2, has been issued 'B' class units, which carry conditional performance entitlements. These performance entitlements will not be crystallised until the earlier of the conclusion of the APN Development Fund No.2 or 'A' class unit holders receiving an Internal Rate of Return (IRR) greater than 14% on total committed capital.

At 30 June 2017, the ability to earn a performance entitlement is possible, but not probable, as 'A' class unit holders have not received an IRR greater than 14% on total committed capital. Accordingly no asset has been recognised in the financial statements.

### **22.2 Contingent liabilities**

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 a number 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 a Scheme.

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

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Reconciliation of cash and cash equivalent</b>                                     |                |                |
| Cash and bank balances available to the Group   | 18,068         | 48,841         |
| Consideration received in cash but payable to non-controlling interest (note 30)      | -              | 21,995         |
| Cash balances held in trust for its managed funds                                     | 572            | 1,195          |
| Total cash and cash equivalents   | <u>18,640</u>  | <u>72,031</u>  |
| <b>Reconciliation of profit after tax to net cash flows from operating activities</b> |                |                |
| Profit / (loss) for the year  | 10,755         | 54,747         |
| <i>Add / (less) non-cash items:</i>   |                |                |
| Share of loss from joint ventures   | -              | 2              |
| (Gain) on disposal of subsidiaries  | -              | (31,592)       |
| Depreciation and amortisation   | 155            | 159            |
| Loss / (Gain) on disposal of co-investments   | 349            | (143)          |
| (Gain) on disposal of investment properties   | (1,840)        | -              |
| Provision for employee benefits   | 1,307          | 1,246          |
| Provision for leases  | (445)          | (321)          |
| Unwinding of onerous contract provision   | (1,846)        | -              |
| Doubtful debts (recovery) / expense   | 43             | -              |
| Equity-settled share based payment transactions                                       | 716            | 669            |
| (Gain)/loss on revaluation of investment  | (3,027)        | (20,681)       |
|   | <u>6,167</u>   | <u>4,086</u>   |
| (Increase) / decrease in trade receivables  | 551            | (11,312)       |
| (Increase) / decrease in other debtors  | 54             | 2,792          |
| (Increase) / decrease in accrued income and prepayments                               | 497            | (814)          |
| (Increase) / decrease in deferred tax assets  | 2,160          | 12,123         |
| (Decrease) / increase in provisions   | (1,355)        | 1,057          |
| (Decrease) / increase in payables   | (79)           | 1,559          |
| (Decrease) / increase in provision for income tax                                     | 1,166          | 2,326          |
|   | <u>9,161</u>   | <u>11,817</u>  |

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 and redemption monies held by the Group pending issue / redemption of units in its 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

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Current financial assets</b>   |                |                |
| Trade receivables   | 2,081          | 2,777          |
| Allowance for doubtful debts (a)  | (43)           | -              |
|   | <u>2,038</u>   | <u>2,777</u>   |
| Consideration receivable from disposal of subsidiaries (note 30)          | -              | 162            |
| Accrued interest and distribution income                                  | 3,215          | 3,400          |
| Deposit paid on investment property <sup>(i)</sup>                        | 3,146          | -              |
| Prepayments   | 302            | 469            |
| Other   | -              | 47             |
| Current trade and other receivables                                       | <u>8,701</u>   | <u>6,855</u>   |
| <b>Non-Current financial assets</b>                                       |                |                |
| Deferred consideration receivable from disposal of subsidiaries (note 30) | -              | 5,995          |
| Loan to related parties   | -              | 5              |
|   | <u>-</u>       | <u>6,000</u>   |

(i) Deposit paid for the right to purchase an investment property that was refunded in July 2017 (note 34).



## 24. Trade and other receivables (cont'd)

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

|  | Trade receivable:<br>Doubtful debts allowance |                | Loan to related party:<br>Doubtful debts allowance |                |
|--|---|----------------|--|----------------|
|  | 2017<br>\$'000                                | 2016<br>\$'000 | 2017<br>\$'000                                     | 2016<br>\$'000 |
| Balance at beginning of financial year | -   | -              | -  | (1,893)        |
| Impairment losses recognised           | (43)  | -              | -  | -              |
| Impairment losses written-off          | -   | -              | -  | 1,893          |
| Balance at end of financial year       | (43)  | -              | -  | -              |

(b) Trade receivables past due but not impaired:

|               | 2017<br>\$'000 | 2016<br>\$'000 |
|---------------|----------------|----------------|
| 31 – 60 days  | 1              | 225            |
| 61 – 90 days  | -              | -              |
| 91 – 120 days | 99             | 2              |
| + 121 days    | -              | -              |
|               | 100            | 227            |

## 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

Trade and other receivables are assessed for impairment and collectability on an on-going basis. An impairment charge is recognised in the profit and loss when there is objective evidence that the Group will not be able to collect the balance outstanding. Objective evidence includes the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on balances outstanding.

The amount of the impairment charge is the difference between the carrying value and the present value of the estimated future cashflows, discounted at the original effective interest rate. Balances known to be uncollectible are written-off when identified. If an impairment allowance has been recognised against a balance that subsequently becomes uncollectible, the balance is written off against the impairment allowance. If an amount is subsequently recovered it is written back to the profit and loss.

## 25. Trade and other payables

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <u>Current financial liabilities</u>  |                |                |
| Trade payables  | 1,435          | 1,639          |
| Other creditors and accruals  | 1,249          | 7,030          |
| Consideration payable to non-controlling shareholders of disposed subsidiaries (note 30)      | -              | 30,696         |
|   | 2,684          | 39,365         |
| <u>Non-Current financial liabilities</u>  |                |                |
| Deferred consideration payable to non-controlling interest of disposed subsidiaries (note 30) | -              | 3,447          |
|   | -              | 3,447          |

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

## 26. Provisions

|                                | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------------|----------------|----------------|
| <u>Current liabilities</u>     |                |                |
| Employee benefits              | 1,828          | 2,097          |
| Onerous contracts (i)          | 163            | 2,009          |
| Other                          | 173            | 173            |
|                                | <u>2,164</u>   | <u>4,279</u>   |
| <u>Non-Current liabilities</u> |                |                |
| Employee benefits              | 1,058          | 851            |
| Lease incentives (ii)          | 16             | 354            |
| Other                          | 131            | 238            |
|                                | <u>1,205</u>   | <u>1,443</u>   |

|  | Onerous contracts |                | Employee benefits |                |
|--|-------------------|----------------|-------------------|----------------|
|  | 2017<br>\$'000    | 2016<br>\$'000 | 2017<br>\$'000    | 2016<br>\$'000 |
| Balance at beginning of financial year | 2,009             | 191            | 2,948             | 2,970          |
| Addition / (writeback) during the year | (647)             | 2,009          | 1,383             | 1,465          |
| Payment / utilisation during the year  | (1,199)           | (191)          | (1,445)           | (1,487)        |
| Balance at end of financial year       | <u>163</u>        | <u>2,009</u>   | <u>2,886</u>      | <u>2,948</u>   |

- (i) This relates to the net unavoidable cost of APN Funds Management Limited as responsible entity of Generation Healthcare REIT.
- (ii) This relates to rental expense representing the straight lining of fixed rental expense increases over the lease term.

### 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, 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.

#### **Onerous contracts**

The provision for onerous contracts represents a contract under which the unavoidable costs of meeting it exceeds its expected economic benefits.

#### **Lease incentives**

The provision for lease incentives represents the unamortised balance of incentives received to enter into an operating lease. The incentive received is recognised as a reduction of rental expense 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)***

The EPSP is 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 are characterised as share options.

During the year, 14,000,000 share options were issued under the EPSP (2016: nil). At 30 June 2017, the fair value of the share options issued and included in the equity compensation reserve is \$2,407,408 (2016: \$1,714,857).

##### ***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, the Company cancelled 250,000 (2016: nil) shares issued to staff in accordance with the terms of the ESS. At 30 June 2017, the fair value of all existing share options issued and included in equity compensation reserve was \$1,188,378 (2016: \$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 2017, the fair value of share options issued and included in the equity compensation reserve was \$104,000 (2016: \$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 of the Group 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 2017, \$45,000 (2016: \$43,000) has been recognised as employee expenses and included in the equity compensation reserve.

## 27. Share-based payments (cont'd)

### 27.2 Share option arrangements

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

| Options series        | Plan | Number    | Grant date | Exercise price | Fair value per option at grant date |
|-----------------------|------|-----------|------------|----------------|-------------------------------------|
| (1) 10 September 2004 | CAST | 3,900,001 | 10.09.2004 | \$0.31         | \$0.01                              |
| (2) 20 June 2005      | ESS  | 162,000   | 20.06.2005 | \$1.00         | \$0.01                              |
| (3) 28 February 2006  | ESS  | 250,000   | 28.02.2006 | \$1.95         | \$0.01                              |
| (3) 28 February 2006  | ESS  | 250,000   | 28.02.2006 | \$1.95         | \$0.30                              |
| (3) 28 February 2006  | ESS  | 250,000   | 28.02.2006 | \$1.95         | \$0.45                              |
| (5) 23 November 2007  | ESS  | 20,000    | 23.11.2007 | \$2.87         | \$0.78                              |
| (5) 23 November 2007  | ESS  | 20,000    | 23.11.2007 | \$2.87         | \$0.92                              |
| (11) 8 May 2014       | EPSP | 5,000,000 | 08.05.2014 | \$0.26         | \$0.08                              |
| (12) 8 May 2014       | EPSP | 5,000,000 | 08.05.2014 | \$0.26         | \$0.12                              |
| (13) 8 May 2014       | EPSP | 5,000,000 | 08.05.2014 | \$0.26         | \$0.14                              |
| (15) 7 December 2016  | EPSP | 2,500,000 | 07.12.2016 | \$0.40         | \$0.07                              |
| (16) 7 December 2016  | EPSP | 2,500,000 | 07.12.2016 | \$0.40         | \$0.09                              |
| (17) 7 December 2016  | EPSP | 2,500,000 | 07.12.2016 | \$0.40         | \$0.09                              |
| (18) 7 December 2016  | EPSP | 833,333   | 07.12.2016 | \$0.00         | \$0.37                              |
| (19) 7 December 2016  | EPSP | 833,333   | 07.12.2016 | \$0.00         | \$0.35                              |
| (20) 7 December 2016  | EPSP | 833,334   | 07.12.2016 | \$0.00         | \$0.35                              |
| (21) 22 December 2016 | EPSP | 1,333,333 | 22.12.2016 | \$0.40         | \$0.07                              |
| (22) 22 December 2016 | EPSP | 1,333,333 | 22.12.2016 | \$0.40         | \$0.09                              |
| (23) 22 December 2016 | EPSP | 1,333,334 | 22.12.2016 | \$0.40         | \$0.09                              |

Series (15), (18) & (21): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019 for Series (15) & (18) and 30 November 2020 for Series (21).

Series (16), (19) & (22): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019 for Series (16) & (19) and 30 November 2020 for Series (22).

Series (17), (20) & (23): 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 rights to dividends nor voting rights and unless vested expire on 30 November 2019 for Series (17) & (20) and 30 November 2020 for Series (23).

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

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

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

## 27. Share-based payments (cont'd)

### 27.3 Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year was \$0.13. (2016: Nil). 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%                   |
| 14            | \$0.26                 | \$0.30         | 62.0%               | 2 years     | -              | 2.71%                   |
| 15            | \$0.40                 | \$0.40         | 13.4%               | 2 years     | -              | 1.83%                   |
| 16 & 17       | \$0.40                 | \$0.40         | 15.3%               | 3 years     | -              | 1.97%                   |
| 18            | \$0.40                 | \$0.00         | 14.4%               | 2 years     | -              | 1.77%                   |
| 19 & 20       | \$0.40                 | \$0.00         | 12.9%               | 3 years     | -              | 1.90%                   |
| 21            | \$0.40                 | \$0.40         | 13.4%               | 2 years     | -              | 1.98%                   |
| 22 & 23       | \$0.40                 | \$0.40         | 15.3%               | 3 years     | -              | 2.11%                   |

### 27.4 Movements in share options and balance outstanding

|  | 2017              |                                    | 2016              |                                    |
|--|-------------------|------------------------------------|-------------------|------------------------------------|
|  | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance at beginning of financial year   | 21,294,267        | \$0.39                             | 21,296,107        | \$0.39                             |
| Granted during the financial year        | 14,000,000        | \$0.33                             | -                 | -                                  |
| Forfeited during the financial year      | (250,000)         | \$2.87                             | -                 | -                                  |
| Exercised during the financial year      | (1,264,354)       | \$0.22                             | (1,840)           | \$1.00                             |
| Balance at end of financial year         | 33,779,913        | \$0.35                             | 21,294,267        | \$0.39                             |
| Exercisable at end of financial year (i) | 19,779,913        | \$0.37                             | 21,294,267        | \$0.39                             |

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

Unvested share options have a weighted average remaining contractual life of 729 days (2016: There are no unvested share options). 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 |
|---------------------|------------------|------------------|------------------------------|
| <b>2017</b>         |                  |                  |                              |
| (2) 20 June 2005    | 12,879           | 18 October 2016  | \$0.43                       |
| (2) 20 June 2005    | 1,475            | 17 March 2017    | \$0.39                       |
| (10) 12 August 2011 | 1,000,000        | 1 July 2016      | \$0.50                       |
| (14) 8 May 2014     | 250,000          | 22 December 2016 | \$0.40                       |
| <b>2016</b>         |                  |                  |                              |
| (2) 20 June 2005    | 1,533            | 12 April 2016    | \$0.40                       |
| (2) 20 June 2005    | 307              | 16 August 2016   | \$0.40                       |

## 28. Key management personnel compensation

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

|                              | 2017             | 2016             |
|------------------------------|------------------|------------------|
|                              | \$               | \$               |
| Short-term employee benefits | 2,403,938        | 1,669,795        |
| Post-employment benefits     | 75,863           | 77,119           |
| Other long-term benefits     | 21,962           | 31,251           |
| Share-based payment          | 585,194          | 625,236          |
|                              | <b>3,086,957</b> | <b>2,403,401</b> |

## 29. Subsidiaries

| Name of entity  | Country of incorporation | Ownership interest |        |
|---|--------------------------|--------------------|--------|
|   |                          | 2017 %             | 2016 % |
| <b>Parent entity</b>  |                          |                    |        |
| APN Property Group Limited (APN PG) (i)                     | Australia                |                    |        |
| <b>Subsidiaries</b>   |                          |                    |        |
| APN Funds Management Limited (APN FM) (ii), (iii)           | Australia                | 100%               | 100%   |
| APN Development and Delivery Pty Limited (APN DD) (iii)     | Australia                | 100%               | 100%   |
| APN European Management Limited (IoM) (iii) (iv)            | Isle of Man              | 100%               | 100%   |
| APN Management No.2 Limited (IoM2) (iii) (iv)               | Isle of Man              | 100%               | 100%   |
| APN Funds Management (Asia) Pte Limited (FM(Asia)) (v)      | Singapore                | –                  | 100%   |
| APN Property Group Nominees Pty Limited (iii)               | Australia                | 100%               | 100%   |
| Australian Property Network (Vic) Pty Limited (iii)         | Australia                | 100%               | 100%   |
| APN No 6 Pty Limited (iii) (viii)                           | Australia                | –                  | 100%   |
| APN No 7 Pty Limited (iii) (viii)                           | Australia                | –                  | 100%   |
| APN No 8 Pty Limited (iii)                                  | Australia                | 100%               | 100%   |
| APN No 10 Pty Limited (iii)                                 | Australia                | 100%               | 100%   |
| APN No 11 Pty Limited (iii) (viii)                          | Australia                | –                  | 100%   |
| APN No 12 Pty Limited (iii) (viii)                          | Australia                | –                  | 100%   |
| APN Euro Property Fund (EPF) (vi)                           | Australia                | –                  | 69.75% |
| APN Asset Services Pty Ltd (iii)                            | Australia                | 100%               | 100%   |
| Industria Company No.2 Pty Ltd (iii)                        | Australia                | 100%               | 100%   |
| APN Convenience Retail Property Fund (CRPF) (iii)           | Australia                | 100%               | 100%   |
| Convenience Retail Management Pty Limited (CRM) (iii) (vii) | Australia                | 100%               | –      |

All entities use the functional currency of their country of incorporation except for APN European Management Limited and APN Management No.2 Limited which use the Euro.

- (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) Proceedings to wind up these companies commenced on 23 June 2017.
- (v) This company deregistered with effect from 9 January 2017.
- (vi) This company dissolved with effect from 31 March 2017.
- (vii) The company was incorporated on 26 May 2017.
- (viii) These companies deregistered with effect from 13 January 2017.

### 30. Disposal of subsidiaries

In June 2017, the Group received the deferred consideration related to the disposal of the Group's healthcare real estate fund management operations of \$5,995,000 and paid the deferred consideration payable of \$3,447,000 to non-controlling shareholders. There was no disposal of subsidiaries in the current year (2016: The Group divested Generation Healthcare Management Pty Limited and its subsidiary as part of the disposal of the Group's Healthcare real estate fund management operations on 27 June 2016).

#### 30.1 Consideration received

|  | 2016<br>\$'000  |
|--|-----------------|
| Gross consideration receivable                                   |                 |
| Management rights  | 58,500          |
| Net assets   | 5,902           |
|  | <u>64,402</u>   |
| Recognised as at 30 June 2016                                    |                 |
| Received in cash   | 58,245          |
| Current Asset – Consideration receivable (note 24)               | 162             |
| Non-Current Asset – Deferred consideration receivable (note 24)  | 5,995           |
|  | <u>64,402</u>   |
| Non-controlling interests entitlement recognition as at 30 June  |                 |
| Current Liability - Consideration payable (note 25)              | (21,995)        |
| Non-Current Liability - Deferred consideration payable (note 25) | (3,447)         |
|  | <u>(25,442)</u> |

#### 30.2 Analysis of assets and liabilities over which control was lost

|                                   | 2016<br>\$'000 |
|-----------------------------------|----------------|
| Cash and cash equivalents         | 2              |
| Trade receivables                 | 14,052         |
| Payables                          | (320)          |
| Current tax liability             | (362)          |
| Deferred tax liabilities (note 8) | (2,543)        |
| Non-controlling interests         | (6,601)        |
|                                   | <u>4,228</u>   |

#### 30.3 Gain on disposal

|  | 2016<br>\$'000 |
|--|----------------|
| Consideration received                             | 64,402         |
| Consideration payable to non-controlling interests | (25,442)       |
| Net assets divested                                | (4,228)        |
| Management rights (note 11)                        | (2,253)        |
| Net transaction costs incurred                     | (887)          |
| Gain on disposal (note 9)                          | <u>31,592</u>  |

#### 30.4 Net cash flow

|  | 2016<br>\$'000 |
|--|----------------|
| Consideration received in cash           | 58,245         |
| Less: cash and cash equivalents divested | (2)            |
|  | <u>58,243</u>  |

### Recognition and measurement

When the Group loses control of a subsidiary a gain or loss on disposal is recognised, calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary.

### 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 2017 (2016: \$nil).

##### (b) Other transactions with key management personnel:

##### Loans to the Company by key management personnel

There is no loan provided by key management personnel during the year (2016: Holus Nominee Pty Ltd ATF The Aylward Family Trust, an entity controlled by the Group's Non-Executive Chairman, Christopher Aylward, provided a \$5,000,000 unsecured loan to the Company at an interest rate of 8.0% per annum for the first 6 months and 10.0% per annum thereafter. The total interest paid was \$260,753. The loan was fully repaid on 20 June 2016).

#### 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      |            |
|---|------------|------------|--------------|------------|------------|------------|
|   | 2017<br>\$ | 2016<br>\$ | 2017<br>\$   | 2016<br>\$ | 2017<br>\$ | 2016<br>\$ |
| <b>Subsidiaries</b>                                       |            |            |              |            |            |            |
| Dividends   | 10,000,000 | 34,018,281 | 124,378      | 2,401,801  | 10,124,378 | 36,420,082 |
| Transfer of investment (i)                                | 7,420,000  | 37,492,033 | -            | -          | 7,420,000  | 37,492,033 |
| Finance income (ii)                                       | 746,010    | 213,038    | -            | -          | 746,010    | 213,038    |
| <b>Other related parties from continuing operations</b>   |            |            |              |            |            |            |
| Fund management fees                                      | -          | -          | 14,788,099   | 12,942,816 | 14,788,099 | 12,942,816 |
| Performance and transaction fees                          | -          | -          | 750,048      | 970,588    | 750,048    | 970,588    |
| Asset and project management fees                         | -          | -          | 203,240      | 76,280     | 203,240    | 76,280     |
| Registry and other income                                 | -          | -          | 2,424,264    | 2,458,794  | 2,424,264  | 2,458,794  |
| Distribution income                                       | 4,028,137  | 2,786,764  | 560,046      | 50         | 4,588,183  | 2,786,814  |
| <b>Other related parties from discontinued operations</b> |            |            |              |            |            |            |
| Management fees   | -          | -          | 17,690       | 2,748,777  | 17,690     | 2,748,777  |
| Performance and transaction fees                          | -          | -          | -            | 10,967,496 | -          | 10,967,496 |
| Asset and project management fees                         | -          | -          | -            | 3,028,755  | -          | 3,028,755  |
| Registry and other income                                 | 100,267    | -          | -            | -          | 100,267    | -          |
| Distribution income                                       | 85,800     | 513,760    | -            | 1,934,129  | 85,800     | 2,447,889  |

(i) The Company received \$7,420,000 for the transfer 3,500,000 units in Industria REIT (2016: paid \$37,492,033 to acquire 17,041,833 units in Generation Healthcare REIT) from its subsidiaries.

(ii) Loan receivable from subsidiary is secured against the asset of the entity and has a weighted average effective interest rate of 7.20% (2016: Loan receivable from subsidiary was secured against the assets of the entity and has a weighted average effective interest rate of 5.81%. This loan was for working capital funding and was repaid in full during the year ended 30 June 2016).



### 31. Related party transactions (cont'd)

#### 31.2 Equity interests and transactions with related parties (cont'd)

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      |            |
|------------------------------|------------|------------|--------------|------------|------------|------------|
|                              | 2017<br>\$ | 2016<br>\$ | 2017<br>\$   | 2016<br>\$ | 2017<br>\$ | 2016<br>\$ |
| <b>Subsidiaries</b>          |            |            |              |            |            |            |
| Trade receivables (i)        | -          | -          | -            | 239,267    | -          | 239,267    |
| <b>Other related parties</b> |            |            |              |            |            |            |
| Trade receivables            | 56,329     | -          | 1,987,055    | 2,532,725  | 2,043,384  | 2,532,725  |
| Provision for doubtful debts | -          | -          | (28,444)     | -          | (28,444)   | -          |

- (i) During the year, a subsidiary has partially paid \$161,892 and the remaining balance of \$77,375 was written off as a bad debt. (2016: The Company agreed to extend financial support, in the ordinary course of operations, to a subsidiary to March 2018. The financial support included the commitment defer the collection of fees and costs due and payable and to fund further cash requirements for the subsidiary as required).

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:

|                                    | 2017       |            |                                  | 2016       |            |                                  |
|------------------------------------|------------|------------|----------------------------------|------------|------------|----------------------------------|
|                                    | Units      | Fair value | Distribution received/receivable | Units      | Fair value | Distribution received/receivable |
|                                    | No.        | \$         | \$                               | No.        | \$         | \$                               |
| APN Property for Income Fund       | -          | -          | 10                               | 107        | 208        | 13                               |
| APN Property for Income Fund No. 2 | -          | -          | 3                                | 64         | 107        | 4                                |
| APN Property Plus Portfolio Fund   | 1,294,852  | 2,678,272  | 123,011                          | 1,294,852  | 2,230,383  | 108,444                          |
| APN European Retail Property Group | 46,366     | -          | -                                | 46,366     | -          | -                                |
| APN Development Fund No. 2         | 2,380,952  | 1,095,238  | -                                | 2,380,952  | 1,238,095  | -                                |
| Generation Healthcare REIT         | -          | -          | 85,800                           | 28,631,778 | 62,989,915 | 2,447,889                        |
| APN Asian REIT Fund                | 703,774    | 1,073,044  | 74,678                           | 657,031    | 1,088,044  | 76,578                           |
| APN AREIT Fund                     | 96,313     | 156,932    | -                                | 90,720     | 165,655    | -                                |
| APN Asia Pacific REIT Fund         | 9,161      | 100        | -                                | 9,161      | 100        | -                                |
| Industria REIT                     | 26,615,140 | 60,948,671 | 3,987,749                        | 17,068,109 | 36,525,753 | 2,601,738                        |
| Newmark APN Auburn Property Fund   | -          | -          | -                                | 1,350,000  | -          | -                                |
| APN Coburg North Retail Fund       | 479        | 479        | 36                               | 479        | 479        | 36                               |
| APN Steller Development Fund       | 2,750,000  | 2,996,950  | -                                | 2,750,000  | 2,664,200  | -                                |
| Convenience Retail REIT No.2       | 9,942,753  | 8,832,147  | 402,550                          | -          | -          | -                                |
| APN AREIT PIE Fund                 | 10,129     | 9,585      | 146                              | -          | -          | -                                |

#### 32. Remuneration of auditors

|   | 2017<br>\$     | 2016<br>\$     |
|---|----------------|----------------|
| Auditor of the parent entity                  |                |                |
| Audit or review of the financial report       | 147,949        | 145,000        |
| Other services (i)                            | 11,285         | 8,987          |
| Other auditors                                |                |                |
| Preparation of the tax return of subsidiaries | -              | 4,084          |
|   | <u>159,234</u> | <u>158,071</u> |

- (i) 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 (2016: 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    |            |
|--|------------|------------|
|  | 2017<br>\$ | 2016<br>\$ |
| <b>Financial position at 30 June 2017</b>                    |            |            |
| Current assets   | 9,046      | 156,554    |
| Non-current assets   | 119,918    | 47,544     |
| Total assets   | 128,964    | 204,098    |
| Current liabilities  | 24,819     | 69,981     |
| Non-current liabilities                                      | 1,205      | 1,443      |
| Total liabilities  | 26,024     | 71,424     |
| Issued capital   | 122,648    | 122,335    |
| Retained earnings  | (23,797)   | 6,945      |
| Equity compensation reserve                                  | 4,089      | 3,394      |
| Total equity   | 102,940    | 132,674    |
| <b>Financial performance for the year ended 30 June 2017</b> |            |            |
| Profit/(Loss) for the year                                   | 6,149      | 56,053     |
| Other comprehensive income for the year, net of tax          | -          | -          |
| Total comprehensive income for the year                      | 6,149      | 56,053     |

### Guarantees, Contingent Liabilities and Contractual Commitments

As at the end of the reporting period, the Company had no financial guarantees provided in relation to debts of its subsidiaries and no contingent liabilities required to be disclosed (2016: Financial support guarantee provided to a subsidiary)

As at the end of the reporting period the Company had contractual commitments outstanding of \$164,000 for leasehold improvements and \$12,584,000 to purchase an investment property (2016: \$nil), of which a deposit of \$3,146,000 had been paid at 30 June 2017 (note 24). The agreement was terminated by the vendor in July 2017 (note 34) with all amounts paid refunded.

### 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 3 July 2017, the \$3,146,000 deposit paid by the Group to secure a service station and convenience retail property for Convenience Retail REIT was refunded following confirmation that Caltex had exercised its last right of refusal to acquire the property.

On 6 July 2017, the Group announced it had secured a \$8,000,000 loan facility to enhance balance sheet flexibility and support the growth initiatives available across APN's platform.

On 14 July 2017, the Company resigned as the responsibility entity of Generation Healthcare REIT following its takeover by Northwest Healthcare Properties REIT, concluding early the final responsibilities arising from the divestment of the manager and co-investment stake as previously announced in June 2016.

On 27 July 2017, Convenience Retail REIT (CRR) successfully completed its initial public offering and commenced trading on the Australian Stock Exchange (ASX) under the ASX ticker code 'CRR'. CRR was formed via the stapling of three managed investment schemes (two of which were existing funds managed by APN FM being APN Property Plus Portfolio and Convenience Retail REIT No.2), supplemented by the acquisition of a further \$113,200,000 of new assets. In conjunction with this listing, the Group invested an additional \$16,696,000 to increase its co-investment stake in CRR to over 12%.

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 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs
- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

#### Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective. At the date of this report, the impact on the financial report of the Group from the initial application of the following Standards and Interpretations has not been assessed:

| Standard   | Effective for annual reporting periods beginning on or after |
|--|--|
| ▪ AASB 9 Financial Instruments   | 1 January 2018   |
| ▪ AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 | 1 January 2018   |
| ▪ AASB 16 Leases   | 1 January 2019   |
| ▪ AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128  | 1 January 2018   |
| ▪ AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)  | 1 January 2017   |
| ▪ AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128], 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107                | 1 January 2017   |
| ▪ AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions   | 1 January 2018   |
| ▪ AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments   | 1 January 2018   |
| ▪ AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle  | 1 January 2017   |
| ▪ Interpretation 22 Foreign Currency Transactions and Advance Consideration  | 1 January 2018   |