A SPECIALIST REAL ESTATE INVESTMENT MANAGER

APN | Property Group

PROPERTY FOR INCOME

ANNUAL REPORT 2020

Contents

Our purpose is to create long term securityholder value by positively impacting people's lives through investing in real estate.

A specialist real estate investment manager

Established in 1996, APN Property Group is a specialist real estate investment manager based in Melbourne Australia. APN is an independent manager with strong alignment with investors through significant co-investments into our funds.

Focused exclusively on real estate funds management and applying our "property for income" philosophy, APN seeks to establish and actively manage a suite of real estate funds to provide annuity style income and wealth creation opportunities for retail and institutional investors.

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

Stapling arrangement

The 'APN Property Group' stapled group (the "Group" or "APD") was established on 13 December 2019 by stapling the securities of the following entities:

- APN Property Group Limited and its consolidated entities ("APN" or "Company"); and
- APD Trust (the "Trust" or "APD Trust")

The Group retained the same ASX ticker code ('APD') and continues to trade as APN Property Group.

These consolidated financial statements present the consolidated results of APD for the period ended 30 June 2020 comprising the results of APN for the period 1 July 2019 to 12 December 2019 and APD comprising APN and the Trust from 13 December 2019 to 30 June 2020. Prior period comparative information represents the results of APN for the period 1 July 2018 to 30 June 2019 or as at 30 June 2019 as indicated.

Note: References to shares and securities refer to stapled securities in APN Property Group unless specifically stated.

HIGHLIGHTS

STATUTORY PROFIT AFTER TAX

$4.2

MILLION

OPERATING EARNINGS AFTER TAX[1]

$10.4

MILLION

OPERATING EARNINGS PER SECURITY

3.12

CENTS

DISTRIBUTIONS PER SECURITY

3.15

CENTS

TOTAL SECURITYHOLDER RETURN[2]

16.8%

NET TANGIBLE ASSETS

$115

MILLION

FUNDS UNDER MANAGEMENT

$2.7

BILLION

TRACK RECORD

24

YEARS

12

FUNDS

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

2 Per annum as at 30 June 2020. Includes reinvestment of dividends at market price on dividend payment date and divisor adjustment for standardised calculation where required.


WesTrac
CAT

LETTER FROM THE CHAIRMAN

Dear Fellow Securityholder,

Thank you for continued interest in APN. Your support over the years has enabled us to rebuild APN from the ashes of the global financial crisis.

COVID-19 is a tragedy and we are all treating it differently. At a personal level, it is distressing and we read wide and varied reports as to its impacts. As a corporation, we take the view that the world survives these events and a review of any long term stock index chart reveals the horror is forgotten by the business community and the opportunity created, grasped by the brave. Usually courage is rewarded when the corporation has been well managed and essentially debt free prior to any market dislocation.

Last year I listed a number of events which had effectively forced central bankers worldwide into a very accommodative stance. Their policies were activated events which challenged the then environment. The reductions in interest rates and provision of liquidity I argued made investment safer, though the side effect was a collapse in investment returns to previously unthought of levels.

Post COVID the response of central banks worldwide is an "awe inspiring" injection of liquidity accompanied by government fiscal largesse, unimaginable a few months ago. The results are unknown but with technology stocks rebounding and most real interest rates in developing countries close to or negative, the retiree is once again working with less income to survive.

Our task at APN is to help investors and retirees survive using income derived from property. To achieve this, APN presently has four products[1]:

1. APN Convenience Retail REIT (ASX:AQR) – 5.9% distribution yield[2]
2. APN Industria REIT (ASX:ADI) – 7.1% distribution yield[3]
3. Real Estate Securities Funds – 6.3% distribution yield[4]
4. Direct property through syndicates – historically average internal rates of return of 14.4%

Our flagship products are all priced daily to market movements. The relevance of these products to investors largely depends on the skill of our managers and our ability to discern and act on underlying trends. History and recent reaction to policy decisions suggests that "the end of the world" is not here yet. Whether or not the rebound is justified will be ascertained shortly. My belief is that "hot" money chasing no yield from companies earning no profit, is unsustainable, though understandable when interest rates are so low. As the clouds lift and the casino-like behaviour of the stock markets recedes, focus will return to property.

As I summarised last year the requirement for "quality income" will be paramount and this is an environment ripe for a well-managed, disciplined and ethical business such as APN.

APN is primed for growth based around products which will be relevant within this risk environment. I congratulate Tim Slattery and his team on building APN to this exceptional position. These efforts were founded, as I said earlier, some 12 years ago. I also welcome Danielle Carter to our board. Danielle has deep property experience and through this "baptism of fire" has illustrated the value she will add.

Finally, I wish you all the best in your investments and encourage you to remember property will come back strongly and should always remain a significant part of your portfolio.

Yours sincerely,

Chris Aylward
Chairman
APN Property Group

1 Past performance is not necessarily an indicator of future performance.
2 Calculated as midpoint of FY21 forecast distributions divided by closing price of $3.72 at 18 August 2020.
3 Calculated as FY20 declared distributions divided by closing price of $2.44 at 18 August 2020.
4 Simple average of APN AREIT Fund (6.5%) and APN Asian REIT Fund (6.1%) as at 18 August 2020. Current yield is calculated as the annualised distribution rate divided by the latest entry unit price. Distributions may include a capital gains component.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Securityholder

I'm pleased to present APN Property Group's Annual Report for financial year 2020.

I'm writing this from my home in Melbourne under Victoria's Stage 4 COVID19 restrictions, in isolation like millions of other people in Australia and around the world. While 2020 has been an extraordinary year already, I am delighted to report that our team's performance has been outstanding - we have continued to operate completely seamlessly under remote working arrangements with exceptional levels of commitment and resilience across the Group. I hope this will be clear to our securityholders and investors from the results we have delivered as well as in our service and communication with you over this time.

Growth in Earnings and Distributions, Strong Financial Position

APN's key profitability measure, Operating Earnings[1] after tax, was $10.4 million in FY2020, an increase of 12% over the prior year (noting APN adopted its stapled structure during the year). Statutory Profit, which includes unrealised changes in the value of investments in managed funds was $4.2 million, which reflects a $6.2 million decrease in the carrying value of APN's co-investments in its ASX-listed funds.

On a per security basis, Operating Earnings increased 6% over the year to 3.12 cents.

Recurring income (mainly annual management fees and distributions from our co-investments) represented approximately 99% of our total income in FY2020.

APN's overall funds under management decreased by 9% to $2.7 billion at year end. This reflects an increase in the value of assets under management in APN's two ASX-listed REITs and unlisted direct property funds, offset by a reduction in the market value of holdings in APN's Real Estate Securities funds.

APN's balance sheet remains strongly positioned with cash holdings of $16.3 million[1] and net tangible assets per security of 35.8 cents (mainly reflecting the lower closing prices at 30 June 2020 for APN's aggregate listed co-investment holdings).

APN's final distribution was set at 1.55 cents per security, for a total for the year of 3.15 cents per security, in line with our guidance provided to the market.

The Market, Opportunities and Risks in Commercial Property

In addition to major global issues including the outcome of the United States' Presidential election later this year and the future of its relationship with China, Australia and the world are currently in the midst of the COVID19 pandemic. The implications of the virus and subsequent responses from Governments, Central Banks, consumers and investors remain complex and the outcomes highly uncertain. So far 2020 has seen periods of extreme volatility in financial markets, unprecedented levels of Government spending to support economies and central bank intervention, while economic output has fallen and unemployment levels have increased significantly in Australia.

While uncertainty levels remain high, the market conditions which are emerging are likely to favour active investment managers who are focused on fundamental value. We believe this is true for both listed and unlisted commercial property investments.

Even in more normal times we would find it challenging to generalise across markets or sectors in terms of their likely performance. This is exacerbated today given the different situations across different cities and states in Australia and the different challenges and opportunities presented in each of the office, industrial and retail sectors.

We believe there will be winners and losers in the property investment sector and that active managers are likely to have the opportunity to significantly outperform in this investing environment. Key risks include tenants with poorly capitalised businesses including with excessive levels of debt, fragile revenue models or leases with shorter term expiries and rents above market levels or within unattractive or uncompetitive buildings. The current market dislocation is likely to accelerate a reduction in demand, at least in the short term, for certain office and retail properties. While capitalisation rates and discount rates may continue to be supported by an extremely low interest rate environment, income levels (rents) will be at risk for some property owners. Significant capital expenditure may also be required for some sites to ensure that they remain competitive within leasing markets. Prudent assessment of risks to income and required levels of capital expenditure will be critical ingredients for successful investing.

At the same time, investors prepared to depart from consensus views on asset classes or individual properties (including within the listed market) have an opportunity to outperform as markets have recently shown their tendency to over-react, even if temporarily, to bad news.

For investors determining how best to allocate their capital between asset classes, we believe that commercial property (with a proper appreciation of the risks and opportunities within the asset class as outlined above) continues to present a compelling option. Commercial property offers a degree of inflation protection as a real asset class, and can provide investors with a strong and growing cash income stream.

Particularly in times of volatility and uncertainty, APN's 'Property for Income™' real estate funds are exceptionally well positioned to continue to deliver for investors.

Funds and Performance

At an operational level, APN's funds aim to generate consistent and relatively high levels of income with potential capital growth over time within their given strategies.

APN's securities funds carry no fund level debt and invest in diversified listed real estate portfolios – they are biased towards owning 'true' rental income streams (as opposed to development and other potentially more variable earnings streams).

The APN AREIT Fund remains one of Australia's best supported property securities funds with $1,071 million invested in its strategy, attracting income-focused investors with its focus on rental cash flows and higher underlying yields. It is a benchmark unaware fund which has a specifically designed objective based on APN's 'Property for Income™' investment philosophy, and offers investors a current passing annual distribution yield of 6.50%[2] with distributions paid monthly. The Fund has delivered annualised returns since its inception of 10.1%[3] the majority of which is sourced from income, with the Fund's focus on risk also providing lower volatility since its establishment.

While the listed property sector as a whole experienced significant volatility during the year which has had an impact on APN's funds under management and revenue, we have seen a substantial recovery from market lows in March. APN's net fund flows into the AREIT Fund have been weaker than in prior years which we mainly attribute to some investors' preferences towards more growth orientated investments (within and outside the listed property sector) however overall the fund remains very well supported.

As a result of COVID19 the Fund has undertaken significant portfolio repositioning, most notably around its retail exposure which has been reduced by 20%. The composition of the remaining retail exposure has also been a focus, with a mix shift from discretionary retail focused landlords towards non-discretionary supermarket or convenience retail asset owners whose cashflow stability have proven more resilient under the operating conditions presented by COVID19.

The APN Asian REIT Fund owns a similarly income-focused portfolio of property securities primarily listed in Singapore, Hong Kong and Japan that outperformed its index over the year, with its performance since inception in 2011 standing at 12.0% pa. The Fund proactively reduced its weighting to Hong Kong to approximately 10% as political unrest and then the COVID19 pandemic impacted that market in particular. The Fund offers investors access to Asian commercial real estate with the potential for strong long term economic growth, along with a relatively high distribution yield (6.1% at 30 June 2020[4]) paid monthly with the backing of underlying real property assets and the flexibility of daily liquidity. With the APN Asian REIT Fund's size at $48 million at balance date, we continue to believe this Fund has significant growth potential as a highly focused investment strategy, as well as enabling APN to continue to extend its product suite as with the recent announcement of the launch of the APN Global REIT Income Fund.

APN manages two ASX-listed REITs, APN Industria REIT (ASX:ADI) and APN Convenience Retail REIT (ASX:AQR), which were established as initial public offerings by APN. In addition, APN manages four unlisted direct property funds. At 30 June 2020 APN's direct property portfolio was $1.4 billion in total with a weighted average lease expiry and a weighted average valuation capitalisation rate of 6.5%. The underlying portfolio is weighted to Australia's Eastern seaboard with the majority of the portfolio by value located in Sydney, Brisbane and Melbourne. The portfolio is weighted 33% industrial, 29% commercial office and 31% convenience retail, with one shopping centre owned in the APN Coburg North Retail Fund being contracted for sale during the period. Cash collection for the portfolio over the June quarter was approximately 97.5%, demonstrating the ongoing resilience of the underlying portfolio assets. While APN has an agnostic and value-driven approach to which sub-sectors we believe offer the best risk adjusted returns, we don't currently have exposure to any regional or sub-regional shopping centres, childcare centres or any hotel or other discretionary-spending linked properties, although they may present compelling future investment opportunities. Gearing levels remain conservative at an average of 30% across our direct property funds, providing significant headroom and flexibility to pursue potential growth investments that would deliver earnings accretion in underlying funds given attractive current debt financing costs.

APN Industria REIT (ASX: ADI) was listed in 2013 with $378 million of office and industrial assets and since that time its portfolio has been built to $826 million in value. The fund delivered continued earnings growth in FY2020, with FFO per security up 2% to 19.3 cents per security despite the impact of COVID19. The Fund achieved record leasing volumes of 28,900 square metres in FY2020, including 11,000 sqm across 49 transactions at Brisbane Technology Park. These results demonstrate APN's hands on approach to managing our real estate and a high level of engagement with the businesses which occupy our properties.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Industria acquired an additional three properties with a combined value of $57 million during the year and raised $47 million in new equity in a transaction that was well supported by existing and new investors. With gearing of 29% at 30 June 2020, the fund has the financial flexibility to pursue additional value-added opportunities.

APN Industria REIT expects to achieve carbon neutrality in FY2021 in accordance with the Climate Active Standard, an Australian Government framework recognised by the European Union Commission and the World Bank. It is anticipated that this will make the fund the first A-REIT to achieve this milestone across its portfolio and operations. This is an extension of the steps the fund has actively taken since 2017 to reduce its carbon emissions and enhance energy efficiency across the property portfolio, largely through investments in solar PV (~2.5MW of installed capacity) and LED lighting.

APN Convenience Retail REIT (ASX: AQR), APN's listed convenience retail fund, grew its portfolio to $448 million at 30 June 2020 through a combination of valuation growth and further acquisitions during the year. The fund delivered an excellent total return for the year of 14.7%, which included distributions of 21.8 cents per security, an increase of 4.3% on FY19.

During the period APN Convenience Retail REIT committed to $90.2 million of property acquisitions of which $67.8 million has settled, while $22.4 million relates to development projects which are forecast to complete in FY2021. In addition to these acquisitions, the Fund also completed $9.8 million of divestments. These net transactions together with a $31.5 million revaluation uplift contributed to an overall increase of 25.1% in portfolio value to $448 million. Post balance date, the Fund has contracted a further $38 million of property acquisitions taking the total portfolio to $509 million upon completion of the development pipeline and the contracted acquisitions.

The fund continues to offer investors a high degree of income security with a 10.6 year average lease term and a portfolio leased to leading international and Australian non-discretionary retailers. During the year Puma Energy Australia, which is the Fund's largest single tenant, was acquired by the NYSE-listed Chevron Group (market capitalisation approximately $US160 billion) as part of a major expansion of its retailing operations in Australia. This acquisition, in addition to a series of other major transactions in the Australian convenience retail sector, highlights the ongoing attractiveness of the sector to global businesses seeking expansion.

The Fund raised $101.6 million in new equity during the year in transactions that were strongly supported by retail and institutional investors. The equity raised has further strengthened the balance sheet, with gearing of 16.5% at 30 June 2020 (pro forma gearing of 24.8% after adjusting for the development pipeline and contracted acquisitions) providing the fund significant capacity to continue to expand and diversify its portfolio.

Within the unlisted direct side of the business we successful completed the wind up of the Steller Development Fund which provided a successful outcome for investors having returned $1.35 per unit and delivered an IRR of 17.7%. In addition, we will also wind up the APN Coburg North Retail Fund after exchanging an unconditional sale contract to sell the Coburg Hill Shopping Centre for $21.3m, which represents a 4% premium to book value and an excellent outcome for investors in a challenging retail environment. The APN Nowra Property Fund, which is 18 months into the five year Fund term, continues to perform exceptionally well and has provided investors with an 8% income return and 9% capital growth for FY2021. The APN Regional Property Fund continues to progress with a number of asset improvement works to maintain the relevance of the buildings within the market, which has contributed to over 4,000 sqm of leasing deals being completed and provides good income visibility for FY2021.

Outlook

While certain parts of the commercial property market in Australia are likely to be under continued pressure in the period ahead, the positioning of APN's funds remains strong. This applies to borrowing levels, property sub-sector exposure and the quality of the respective real estate portfolios (including the strength of underlying tenant covenants and leases) and current carrying values. We expect to continue to grow our ASX-listed REITs and our existing funds by delivering strong and growing income levels and outstanding levels of service to our investors.

APN has continued to enhance its capital raising abilities over the course of the year and we expect to launch further funds over the coming year as we execute on our strategy to build the profitability of the Group through increasing scale.

We continue to hold a long term view on growth opportunities and as such we recently launched the APN Global REIT Income Fund. The Fund will provide investors the opportunity to invest in a diverse portfolio of global listed REITs, managed by an experienced team of investment managers in Australia and the United States. Reflecting strong demand from advisers and direct investors for consistent income returns underpinned by real property assets, the Fund aims to deliver an attractive distribution yield and lower risk than the market. The APN Global REIT Income Fund is a natural extension of our domestic and Asian REIT investment capabilities developed by APN over the last 23 years. While timing the launch for a new fund is often challenging, we have seen the APN AREIT Fund grow to over A$1 billion after starting out in what was a difficult market environment in early 2009. We believe the current market conditions suit our active, income focused approach and present an attractive entry point for long term investors.

The APN Global REIT Income Fund will present a unique offering in the market by focussing on recurring rental income generated from quality real assets across a diverse range of property sectors. These assets include mobile phone towers, warehousing, logistics and healthcare real estate illustrating the breadth and depth of markets overseas which are not readily available to investors in Australia. The Fund aims to deliver strong and regular distributions within an initial starting range of 4.00 – 5.00% per year.

APN will continue to make strategic, long term investments in new products which we believe will outperform for our investors and add value to APN securityholders, including through opportunities to enter new sectors and potential acquisitions.

Distributions and Distribution Guidance for FY2021

The Board has declared a final distribution of 1.55 cents per stapled security which will be 52% franked, bringing total distributions for the year to 3.15 cents per share (61% franked).

In relation to FY2021, the Board expects to pay Distributions per security of 2.50 - 2.80 cents. This guidance is subject to a continuation of current market conditions and no unforeseen events occurring.

Adoption of Stapled Structure

APN Property Group adopted a stapled structure in the first half of FY2020 following approval by securityholders in October 2019. This change in APN's structure, which has included the declaration of distributions prior to balance date (and recognition of a liability), will affect the comparability of FY2020 versus prior years' results in certain respects including income tax expense.

Note of Thanks

I'd like to take this opportunity to thank our team, investors and business partners and directors for their contributions to APN's FY2020 results. 2020 has been an extraordinary year so far and the APN team's performance has been simply outstanding, particularly in light of APN's expense reduction initiatives to ensure our business remains best positioned to continue to compete and grow within our industry.

On behalf of our Board and team I would also like to thank all of our securityholders for your support over the year. APN is in an excellent position to continue to deliver great results for our investors and our securityholders, with an excellent team, access to capital and highly relevant products with attractive growth opportunities before us.

We hope you are keeping safe and our team is looking forward to the year ahead and sharing further success with you.

Yours sincerely,

Tim Slattery
Chief Executive Officer
APN Property Group

1 Includes cash held in trust for underlying funds managed by the Group of $1.3 million and $5.5 million for AFS Licences.
2 Calculated as monthly distribution divided by fund entry price at 30 June 2020. Past performance is not necessarily an indicator of future performance. Distributions may include a capital gains component.
3 From inception on 20 January 2009 to 30 June 2020, net of fees.
4 Calculated as monthly distribution divided by fund entry price at 30 June 2020. Past performance is not necessarily an indicator of future performance. Distributions may include a capital gains component.

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 2020.

Information about the Directors

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

DIRECTORS' REPORT

Christopher Aylward

Non-Executive Chairman

- Director since 1996.

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

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

Clive Appleton

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

Independent Director

- Director since 2004.
- Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee.

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

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

Clive is Deputy Chairman of the Gandel Group, Chairman of Aspen Group (since 2012), Director of Perth Airports Pty Ltd and Perth Airport Development Group Pty Ltd (since 2014) and Director of Vicinity Limited and Vicinity Centres RE Ltd (since August 2018). Clive is also Chairman of not for profit organisation Pancare.

Howard Brenchley

BEc

Independent Director

- Director since 1998.
- Independent Director since March 2018.
- Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee (appointed 30 August 2019).

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 (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).

Danielle Carter

BCom / BA, Grad DipAppFin, CA, GAICD

Independent Director

- Director since 3 March 2020.
- Member of the Audit and Risk Committee and member of the Nomination and Remuneration Committee.

Danielle Carter has over 25 years combined real estate and financial services industry experience. Danielle was most recently the Chief Investment Officer at financial advisory firm Strategic Financial Management.

Danielle has extensive property funds management expertise having worked at BlackRock for 11 years and with boutique fund manager SG Hiscock & Company. At BlackRock she was a Fund Manager responsible for BlackRock Australia's listed, unlisted and direct real estate assets and a member of the Australia / Asia Investment Committee.

Danielle has worked in New York as a consultant in Ernst & Young's Real Estate Consulting Group and in the UK with retailer Mark & Spencer's property division. Danielle also spent three years with Ernst & Young's Assurance and Advisory team in Melbourne and Sydney, specialising in Property.

Timothy Slattery

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

Chief Executive Officer

- Director since 2014.

Tim has 15 years' experience across real estate investment management, investment banking with Goldman Sachs and corporate law with Herbert Smith Freehills including 11 years with APN.

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

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

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

Chantal Churchill

BSc(Psych), DipHRM, GIA(Cert)

Company Secretary and Head of Risk and Compliance

- Company Secretary since December 2016.

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

Chantal has over 15 years' professional experience in company administration, corporate governance, risk and compliance having been involved with several listed and unlisted public companies. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services and funds management including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

RESIGNED DURIING THE YEAR

Anthony (Tony) Young

Independent Director

- Director since December 2015 to 30 August 2019.

DIRECTORS’ REPORT

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 2020 APN operated four business divisions:

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

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

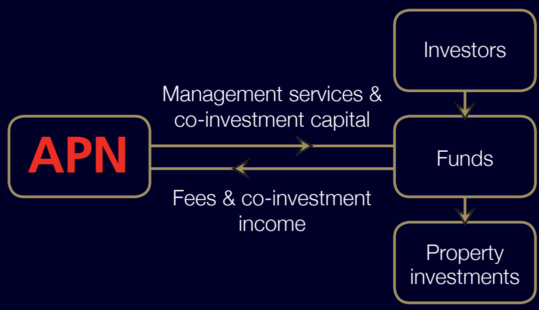
APN Industria REIT (ASX Code: ADI) is an ASX listed fund that owns interests in office and industrial properties that provide functional and affordable workspaces for businesses located predominately on Australia’s eastern seaboard. By seeking to provide its tenants with modern, cost effective and practical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

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

Direct Funds 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.

Our Strategy

Business model



Competitive advantages

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

Objective to build shareholder value

Increase Scale

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

Manage Costs

- Measured investment in growth
- Disciplined overheads

Outcome

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

Changes in state of affairs

On 13 December 2019, APN completed the stapling of ordinary shares in the Company to ordinary units in the Trust to form a stapled group, as approved by shareholders at the 2019 annual general meeting ('Stapling Proposal'). The Stapling occurred by a contractual stapling of an ordinary unit in the Trust with an ordinary share in the Company so that neither can be dealt with without the other in an identical manner, at the same time and subject to the same restrictions. As a result, the shares in the Company are stapled to units in the Trust on a one to one basis, so that all securityholders hold units in the Trust and shares in the Company. The Group has retained the same ASX ticker code ('APD') and will continue to trade as APN Property Group.

Except as disclosed above, 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 $4.2 million for the year ended 30 June 2020, compared to $14.5 million in FY19. Statutory earnings per security (diluted) were 1.02 cents compared to 4.67 cents in the prior comparative period (pcp). Operating earnings after tax increased $1.12 million to $10.35 million, or 3.12 cents per stapled security (cps), up 6.1% on the pcp of 2.94 cps. Total distributions declared in relation to FY20 increased 0.40 cps from 2.75 cps (partially franked) to 3.15 cps (which comprised fully franked dividends of 1.93 cps and distributions of 1.22 cps).

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

	Company $'000	Trust $'000	Group Year ended June 2020 $'000	Group Year ended June 2019 $'000
Fund management fees	15,279	–	15,279	15,038
Performance and transaction fees	272	–	272	374
Asset, leasing and project management fees	689	–	689	269
Registry and other fees	2,200	–	2,200	2,289
Total net funds management income	18,440	–	18,440	17,970
Co-investment income	2,915	4,997	7,912	7,985
Rental and other property related income	–	–	–	640
Total net income	21,355	4,997	26,352	26,595
Employment costs	(9,547)	–	(9,547)	(10,345)
Occupancy costs	(310)	–	(310)	(678)
Sales & Marketing costs	(776)	–	(776)	(710)
Other costs	(2,365)	(68)	(2,433)	(2,051)
Depreciation & amortisation	(704)	–	(704)	(141)
Finance income / (expenses)	387	(692)	(305)	(88)
Operating earnings before tax	8,040	4,237	12,277	12,582
Income tax expense	(1,927)	–	(1,927)	(3,350)
Operating earnings after tax[1]	6,113	4,237	10,350	9,232
Other non-operating items, including income tax	11,898	(18,050)	(6,152)	5,301
Statutory profit after tax	18,011	(13,813)	4,198	14,533

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

Funds under Management (FuM) decreased 9.0% or $265 million to $2.7 billion at 30 June 2020, primarily due to a reduction in the market value of holdings in APN's real estate securities funds, partially offset by property acquisitions made by APN Industria REIT and APN Convenience Retail REIT.

Total net funds management income increased by 2.6% or $0.5 million to $18.4 million primarily due to higher leasing and property management fees compared to the pcp. Co-investment income decreased 0.9% to $7.9 million in FY20 reflecting increased distributions from APN Industria REIT and the remaining stake held in the APN Regional Property Fund, offset by the one-off profit distribution received from APN Steller Development Fund in the prior period. Rent and other property related income decreased from $0.6 million to nil, reflecting the successful syndication of APN's Nowra property during the prior period.

Operating income before tax was down 2.4% or $0.3 million to $12.3 million, with lower employment and occupancy costs offset by higher depreciation and interest expense following adoption of AASB 16 *Leases*. Operating income after tax was up 12.1% or $1.1 million to $10.4 million due to the change in tax arrangements under APN's stapled structure and a reversal in share based payment costs not subject to tax.

Non-operating activities

Other non-operating items (net of tax) contributed a loss of $6.2 million in the current year, largely comprising unfavourable mark-to-market movements in the Group's co-investments (in particular APN Industria REIT), partially offset by the reversal of deferred tax liabilities as part of stapling process.

Balance sheet

The balance sheet of the Group remains strong. Net Tangible Assets decreased 10.9% to 35.8 cps and available cash and cash equivalents at balance date was $15.0 million. As at 30 June 2020 net capital deployed to co-investing activities totalled $105.5 million or 33.0 cps, incorporating limited recourse borrowings of $9.0m and a $6.9 million investment holding in the APN Regional Property Fund.

APN Property Group products and customers

Specialist property expertise in four key areas

APN Property Group
$2.7b

REAL ESTATE SECURITIES
$1,229m
FUM

APN INDUSTRIA REIT
$833m
FUM

APN CONVENIENCE RETAIL REIT
$452m
FUM

DIRECT PROPERTY
$150m
FUM

Real Estate Securities

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

The RES division reported FuM of $1.2 billion at 30 June 2020, a decrease of $455 million or 27.0% compared to the prior year, driven by unfavourable mark to market movements of $432 million as a result of COVID19's impact on equity markets, and net outflows of $24 million.

The APN AREIT Fund has consistently delivered on its income return objective since inception based on its benchmark unaware strategy of investing in the listed property sector to deliver regular monthly distribution income. The COVID19 pandemic has had a significant impact on REITs globally, with the Australian REIT market more severely impacted due to its higher exposure to retail assets. This weighed on the performance of the Fund over the financial period, with the unparalleled March sell-off partially offset by a strong June quarter recovery experienced by the market. The Fund's portfolio has been intensely managed throughout the pandemic period in order to reduce overall volatility and inherent risk at the asset level. Repositioning of the Fund's investment in the retail sector has been a key focus, with a significant overall reduction in the Fund's retail exposure and a mix shift towards non-discretionary retail (supermarkets/convenience retail) compared to discretionary retail (larger malls). Against the backdrop of the current market volatility and with the Reserve Bank of Australia's cash rate at a record low of 0.25% and the Australian 10 year Commonwealth Government Bond yielding below 1% pa, the fund remains well placed in this low interest rate environment, delivering investors a property backed monthly distribution yield.

The APN Asian REIT Fund continued to build momentum, with FuM increasing by 8% over the year to $48 million, driven by net inflows of $13 million. The Fund's portfolio was well diversified across property sectors before COVID19 and has since repositioned to further reduce its retail exposure and increase its other holdings including industrial and multi-family. The Fund has held its distribution rate steady because of the relatively small impact so far on the dividends announced by the REITs it holds. Asian REITs outperformed global REIT markets over the COVID19 sell off period, and the Fund has delivered investors a total return of 12.0% per annum since its July 2011 inception.

The priority for FY21 is to continue delivering 'true to label' investment performance – consistent and relatively high levels of income with long term capital growth and lower than market volatility. The launch of the APN Global REIT Income Fund is an exciting new opportunity to extend our product suite of "Property for Income" funds, leveraging our existing distribution relationships and investment capabilities with the additional support of on the ground overseas investment expertise based in New York.

Highlights

FUNDS UNDER MANAGEMENT

$1.2b

APN Asian REIT Fund

INCREASED 8% TO

$48m

ANNOUNCEMENT OF THE

APN Global REIT Income Fund

DIRECTORS' REPORT

APN Industria REIT

APN Industria REIT (ASX: ADI) is an ASX listed real estate investment trust owning industrial and office properties that provide functional and affordable workspaces for businesses. The property portfolio is located predominately across the eastern seaboard states and is managed with a focus on providing long term sustainable income and capital growth opportunities for investors. APN is a major investor in APN Industria REIT with a total holding valued at $68 million.

ADI's FuM increased 12% to $833 million at 30 June 2020 following an active year of property acquisitions across the property portfolio. The three industrial properties acquired during the year for $57 million were financed via a strongly supported $47 million equity raising transaction as well as additional debt facilities. The portfolio demonstrated performance in light of the disruption caused by COVID19, with FFO of 19.3 cps up 1.6% on FY19.

Record leasing volumes of ~28,900 square metres were completed during the year, helping to maintain strong occupancy levels of 94%. This included 85% tenant retention at Brisbane Technology Park, where 49 transactions totalling 11,100 square metres were completed. At year end, the portfolio's weighted average lease expiry was 5.7 years and ADI's Net Tangible Assets (NTA) had increased to $2.82 per security.

Gearing at 30 June 2020 was 24.8%, below the target range of 30 – 40%. APN Industria REIT's conservative and strong balance sheet and attractive cost of capital provides the capacity to strategically pursue acquisition opportunities and continue to deliver value and income enhancing property initiatives. Tenant engagement and amenity improvements to deliver innovative and simple solutions remain Management's core focus, ensuring the Fund is the first choice landlord for new and renewing tenants.

Highlights

FUNDS UNDER MANAGEMENT

$833m

▲ 12%

LEASING COMPLETED

~28,900sqm

ACQUISITIONS TOTALLING

$57m

ACROSS THREE PROPERTIES

FFO PER SECURITY GROWTH OF

1.6%

WALE OF

5.7years

APN Convenience Retail REIT

APN Convenience Retail REIT (ASX: AQR) owns 79 convenience retail assets leased to high quality tenants on long term leases. The Fund offers investors a simple and reliable cash income stream with the potential for income and capital growth over time. As at 30 June 2020, APN is APN Convenience Retail REIT's largest investor, owning a stake valued at $36 million.

FuM totalled $452 million at 30 June 2020, following $58 million of net acquisitions and development projects completed, as well as portfolio revaluation gains of $31.9 million arising from the acquisition of Puma Energy Australia by Chevron and contracted rent increases across the portfolio.

Funds From Operations were $19.3 million, or 21.6 cents per security, representing an increase of 13.3% and 0.4% on FY19 respectively. This increase was primarily driven by a 6.9% increase in net property income due to 2.8% like-for-like property rental growth as well as the contribution from 12 acquisitions completed during FY19-20.

Occupancy was maintained at 100%, with a weighted average lease expiry of 10.6 years. 80% of AQR's income benefits from fixed annual increases of 3% or more, with the balance of the portfolio subject to CPI escalations, providing a strong growth profile in the current low inflation environment.

FY21 activities will focus on active capital and portfolio management initiatives, including completion of the existing pipeline of development projects and pursuing acquisition opportunities to grow and diversify the property portfolio to continue to deliver long term sustainable earnings growth and value for investors.

Highlights

FUNDS UNDER MANAGEMENT

$452m

▲ 26%

COMMITTED ACQUISITIONS ANNOUNCED IN FY2020

$90m

ADDITIONAL COMMITTED ACQUISITIONS POST BALANCE DATE

$38m

DISTRIBUTIONS PER SECURITY

21.8cps

▲ 4.3%

OCCUPANCY

100%

WALE OF

10.6years

DIRECTORS' REPORT

Direct Funds

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

FuM increased $8 million to $150 million for the year and highlights included the completion of the wind up of the APN Steller Development Fund, providing a successful outcome for investors having returned $1.35 per unit and delivered an IRR of 17.7%. APN has also exchanged contracts to sell Coburg North Shopping Centre for $21.3m, a ~4% premium to book value – an excellent outcome in a challenging retail environment.

The direct property team remains an active participant in the commercial property market, evaluating over $3.8 billion in opportunities across ADI, AQR and Direct investment mandate criteria, submitting offers of over $1.7 billion and ultimately executing transactions valued at $186 million.

Efforts in FY21 will continue to focus on seeking new commercial property opportunities with an appropriate risk and return profile sought by our investors to establish new direct property syndicates. Active property management and leasing initiatives will remain a top priority for the existing direct property funds.

Highlights

FUNDS UNDER MANAGEMENT

$150m

EXCHANGED CONTRACT TO SELL

Coburg North Shopping Centre

FOR

$21.3m

4% premium

TO BOOK VALUE

WIND UP COMPLETED

APN Steller Development Fund

DELIVERING AN IRR OF

17.7%

Outlook

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

Distributions

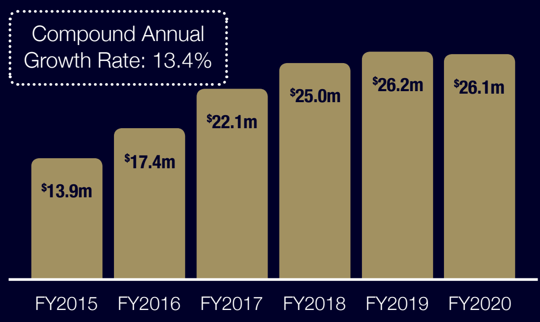
Distributions totalling 3.15 cps have been declared in relation to FY20, comprising 1.93 cps of fully franked dividends and 1.22 cps of trust distributions. The interim fully franked dividend of 1.13 cps and interim distribution of 0.47 cps were paid to shareholders on 13 March 2020, with the final fully franked dividend of 0.80 cps and final distribution of 0.75 cps totalling 1.55 cps payable on 31 July 2020 to those shareholders registered as at 30 June 2020. The dividend and distribution reinvestment plan (DRP) was offered for the FY20 final dividend and distribution.

On 13 December 2019, a special fully franked dividend of 1.20 cps and capital return of 6.30 cps was declared by APN Property Group Limited, to all shareholders registered on 11 December 2019. The payment was compulsorily applied to subscribe for units in APD Trust in in accordance with the stapling proposal approved by APD shareholders on 20 November 2019, resulting in no cash payment to shareholders.

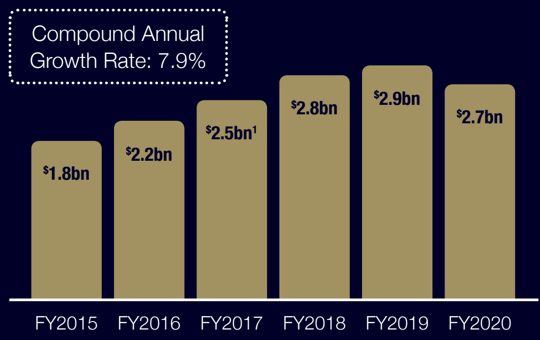
The Board expects to pay distributions of 2.50 - 2.80 cents per security for FY2021. This guidance is subject to a continuation of current market conditions and no unforeseen events occurring.

APN Growth Track Record

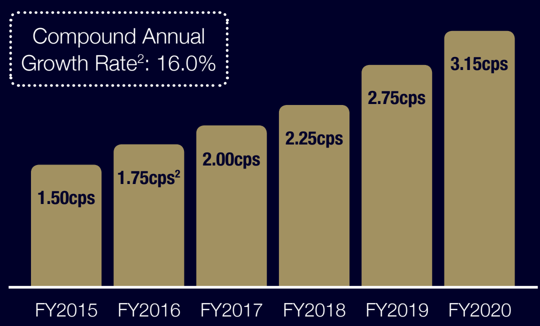
Recurring income growth



Funds under management



Distributions



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

2 Excludes special dividend of 10cps in FY2016 and special dividend declared for stapling in FY2020.

DIRECTORS' REPORT

Key risks

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

Regulatory risk

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

APN continues to 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

Subsequent to year end, APN has accepted offers to acquire a further $1,161,000 of its investment in APN Regional Property Fund at $1.43 per unit from new and existing investors.

The COVID-19 pandemic has created unprecedented uncertainty. The Directors have assessed the events subsequent to year end up to the date of signing these financial statements and determined that no adjustments or additional disclosures are required. Actual economic events and conditions in the future may materially differ from those estimated by the Group at the reporting date. In the event that future COVID-19 impacts are more severe or prolonged than anticipated, the future fair value of the investments held and future management fees earned may be adversely impacted.

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

Directors' shareholdings

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

	Directors				
	Christopher Aylward	Clive Appleton	Howard Brenchley	Timothy Slattery	Danielle Carter
APN Property Group Limited					
Number of fully paid ordinary shares	81,050,000	915,001	9,576,309	598,180	47,831
Number of shares issued under limited or non-recourse loans, disclosed as share options	–	3,900,001	–	12,046,111	–
Share options	–	–	–	2,953,889	–
Number of securities in a related body corporate					
APN Industria REIT	–	–	–	8,599	–
APN Convenience Retail REIT	1,048,423	–	64,914	860	–
APN Property for Income Fund No. 2	–	9,163	–	–	–
APN AREIT Fund	–	392,808	98,782	–	–
APN Asian REIT Fund	502,111	198,977	–	11,755	–
APN Regional Property Fund	2,439,704	–	91,474	–	–
APN Nowra Property Fund	500,000	60,000	100,000	–	–

Share options granted / exercised

In the period since 1 July 2019:

- the following share options were granted to directors / five highest remunerated officers of the company and its controlled entities as part of their remuneration. Further details are set in note 28.

Executive	Number of options granted	Issuing entity	Number of ordinary shares under option
Joseph De Rango	2,000,000	APN Property Group Limited	2,000,000

- 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	3,426	Ordinary shares	3,426	–

Unissued shares under option

There are no unissued ordinary shares of the Company. The interests in the Company under option are set out in note 28.

Directors' meetings

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

	APN Board		Audit and Risk Management committee		Nomination and Remuneration committee	
Directors	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Christopher Aylward[2]	13	13	1	1	1	1
Clive Appleton	13	13	2	2	2	2
Howard Brenchley[3]	13	13	2	2	2	2
Timothy Slattery	13	11	N/A	N/A	N/A	N/A
Anthony (Tony) Young[4]	2	2	1	1	0	0
Danielle Carter[5]	6	6	0	0	1	1

1 Number of meetings held during the time the director held office or was a member of the committee during the year.
2 Christopher Aylward ceased as member of Audit and Risk Committee and Nomination and Remuneration Committee effective 3 March 2020.
3 Howard Brenchley appointed as Chair of Audit and Risk Committee effective 30 August 2019.
4 Anthony (Tony) Young ceased as Director, Chair of Audit, Risk and Compliance Committee and member of Nomination and Remuneration Committee effective 30 August 2019.
5 Danielle Carter appointed as Director and member of Audit and Risk Committee and Nomination and Remuneration Committee effective 3 March 2020.

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

	APN FM Board		Audit, Compliance and Risk Management committee		Nomination and Remuneration committee	
Directors	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Geoff Brunsdon	14	14	6	6	1	1
Jennifer Horrigan	14	14	6	6	1	1
Michael Johnstone	14	14	6	6	1	1
Howard Brenchley	14	13	N/A	N/A	N/A	N/A
Michael Groth[2]	2	0	N/A	N/A	N/A	N/A
Joseph De Rango[3]	12	0	N/A	N/A	N/A	N/A

1 Number of meetings held during the time the director held office or was a member of the committee during the year.
2 Michael Groth resigned as Alternate Director for Howard Brenchley on 2 September 2019. Mr Groth attended each Board Meeting held in his capacity as CFO.
3 Joseph De Rango was appointed as Alternate Director for Howard Brenchley on 2 September 2019. Mr De Rango attended each Board Meeting held in his capacity as CFO.

Future developments

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

Environmental regulations

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

Indemnification of officers and auditors

The Company has agreed to indemnify the directors and officers of the Company and its controlled entities, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of unlawful conduct. The Company will meet the full amount of any such liabilities, including costs and expenses. The Company may also indemnify any employee by resolution of the Directors. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. The Company has not indemnified, nor made a relevant agreement to indemnify, the auditor of the Group or any related body (corporate) against a liability incurred by the auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 39 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 33 to the financial statements.

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

The audit and risk management committee are of the opinion that the services as disclosed in note 33 do not compromise the external auditor's independence, for the following reasons:

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

Rounding of amounts

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

Remuneration Report

Director and key management personnel details

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

Directors of APN

- Christopher Aylward (Non-Executive Chairman)
- Clive Appleton (Independent Director)
- Howard Brenchley (Independent Director)
- Timothy Slattery (Chief Executive Officer)
- Danielle Carter (Independent Director, Appointed 3 March 2020)
- Anthony (Tony) Young (Independent Director, Resigned 30 August 2019)

Directors of APN RE

- Christopher Aylward (Non-Executive Chairman)
- Clive Appleton (Independent Director)
- Howard Brenchley (Independent Director, Appointed 21 August 2019)
- Timothy Slattery (Director, Resigned 19 September 2019)
- Danielle Carter (Independent Director, Appointed 3 March 2020)
- Anthony (Tony) Young (Independent Director, Resigned 30 August 2019)

Directors of APN FM

- Geoff Brunsdon AM (Independent Chairman)
- Jennifer Horrigan (Independent Director)
- Michael Johnstone (Independent Director)
- Howard Brenchley (Independent Director)
- Joseph De Rango (Alternate Executive Director for Howard Brenchley, Appointed 2 September 2019)
- Michael Groth (Alternate Executive Director for Howard Brenchley, Resigned 2 September 2019)

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

- Chantal Churchill (Company Secretary and Head of Risk and Compliance)
- Joseph De Rango (Chief Financial Officer, Appointed 1 September 2019)
- Michael Groth (Chief Financial Officer, Resigned 2 July 2019)

Remuneration policy for directors and key management personnel

Principles of compensation

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

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

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

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

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

Compensation of non-executive directors

Fees and payments to non-executive directors reflect the demands and responsibilities of those directors and are reviewed by the Board annually. Non-executive directors' fees including standing Board committee fees and subsidiary Board fees are determined within an aggregate annual fee pool limit, which is periodically recommended for approval by shareholders. At present that sum is fixed at a maximum of $900,000. Non-executive directors are not entitled to any retirement benefits.

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

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

Compensation of executive directors and key management personnel

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

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

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

Fixed compensation

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

Short term incentives (STI)

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

For the Chief Executive Officer (Timothy Slattery) and the Chief Financial Officer (Joseph De Rango), STIs are principally determined as below:-

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

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

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

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

Long term incentives (LTI)

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

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

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

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

At 30 June 2020, the fair value of the share options issued and included in the equity compensation reserve is $2,695,858 (2019: $3,589,290).

The following offers were made or modified in the year ended 30 June 2020 (in accordance with the EPSP and TSESP) that affect the remuneration of key management personnel in the current financial year or future financial years:

Options series	Grant date, Modified date	Number	Exercise price	Grant date fair value	Revalued at modified date fair value	Modified date fair value
(15) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.07	$0.05	$0.05
(16) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.09	$0.05	$0.06
(17) Issued 7 December 2016, modified 21 November 2018*	7 Dec 2016, 21 Nov 2018	2,500,000	$0.40	$0.09	$0.05	$0.08
(21) Issued 22 December 2016, modified 30 April 2018	22.12.2016, 30 Apr 2018	166,666	$0.40	$0.07	$0.03	$0.06
(22) Issued 22 December 2016, modified 30 April 2018	22.12.2016, 30 Apr 2018	166,667	$0.40	$0.09	$0.06	$0.07
(23) Issued 22 December 2016, modified 30 April 2018	22.12.2016, 30 Apr 2018	166,667	$0.40	$0.09	$0.06	$0.07
(24) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,333	$0.40	$0.08	$0.06	$0.06
(25) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,333	$0.40	$0.08	$0.06	$0.07
(26) Issued 12 September 2017, modified 30 April 2018	12 Sep 2017, 30 Apr 2018	83,334	$0.40	$0.08	$0.06	$0.07
(27) 1 September 2019	1 Sep 2019	500,000	$0.53	$0.06	N/A	N/A
(28) 1 September 2019	1 Sep 2019	500,000	$0.53	$0.08	N/A	N/A
(29) 1 September 2019	1 Sep 2019	500,000	$0.53	$0.09	N/A	N/A
(30) 1 September 2019	1 Sep 2019	500,000	$0.53	$0.09	N/A	N/A

Series (15), (21) & (24): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle of 3.13 cps (increased by 0.33 cps from 2.80 cps) (performance criteria) has been achieved. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2018 from 30 November 2019 for Series (15) / 30 November 2020 for Series (21) & (24) to 31 December 2020.

Series (16), (22), (25) & (27): 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 for series (16), (22) & (25) and on 31 December 2019 for series (27) and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.13 cps (increased by 0.33 cps from 2.80 cps) (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.58 cps (increased by 0.33 cps from 3.25 cps) at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020 for series (16), (22) & (25) and series (27) expire on 31 December 2024.

Series (17), (23), (26) & (28): 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 for series (17), (23) & (26) and on 31 December 2019 for series (28) and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.58 cps (increased by 0.33 cps from 3.25 cps) (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.03 cps (increased by 0.33 cps from 3.70 cps) at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020 for series (17), (23) & (26) and series (28) expire on 31 December 2024.

Series (29): 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 31 December 2019 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 4.03 cps (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.48 cps at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights and unless vested expire on 31 December 2024.

Series (30): 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 31 December 2019 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 4.48 cps (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.93 cps at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights and unless vested expire on 31 December 2024.

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

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

		During the year				% of compensation for the year consisting of options
Name	Options series	No. granted	No. vested	% of grant vested	% of grant forfeited	
Joseph De Rango	Series (27), (28), (29) & (30)	2,000,000	409,222	20.46%	–	12.93%
Michael Groth[(i)]	Series (18), (19) & (20)	–	–	–	100%	–

(i) Forfeited due to termination of employment.

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

APN Employee Share Gift Plan (ESGP)

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

At 30 June 2020, $nil (2019: $nil) has been recognised as employee expenses / included in the equity compensation reserve.

Other Incentive Plans (no longer in operation)

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

APN Employee Share Plan (ESS)

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

Clive Appleton Share Trust (CAST)

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

At 30 June 2020, 3,900,001 (2019: 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 (2019: $104,000). The shares are fully vested and can be exercised at any time.

Executive Directors and Key Management Personnel service agreements

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

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

- an annual remuneration package and benefits including superannuation which is reviewed at least on an annual basis with the outcomes of the review applied on 1st July each year (except in relation to the remuneration package for Timothy Slattery which will not be reviewed until at least 31 December 2020);
- the basis of termination or retirement and the benefits and conditions as a consequence;
- agreed provisions in relation to annual leave and long service leave, confidential information, intellectual property; and
- a restrictive covenant preventing the employees from engaging in specified activities after their employment with the Group ceases.

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

Relationship between the remuneration policy and Company performance

The Company considers that its remuneration structures have been successful in incentivising employees to enhance Company performance and shareholder wealth over the 5 years to 30 June 2020 as illustrated in the table below:

	30 June 2020 $'000	30 June 2019 $'000	30 June 2018 $'000	30 June 2017 $'000	30 June 2016[(i)] $'000
Revenue	26,484	26,709	25,902	25,149	39,056
Sundry income	8	21	8	27	18
Total revenue	26,492	26,730	25,910	25,176	39,074
Operating Earnings after tax[(i)]	10,350	9,232	8,211	7,320	10,507
Net profit after tax	4,198	14,533	13,565	10,755	54,747

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016[(i)]
Share price at start of year	$0.50	$0.45	$0.41	$0.50	$0.37
Share price at end of year	$0.54	$0.50	$0.45	$0.41	$0.50
Interim dividend / distribution	1.60 cps[(ii)]	1.25 cps[(iv)]	1.25 cps[(vi)]	1.25 cps[(vi)]	1.25 cps[(vi)]
Final dividend / distribution	1.55 cps[(iii)]	1.50 cps[(v)]	1.00 cps[(iv)]	0.75 cps[(vi)]	0.50 cps[(vi)]
Special dividend	1.20 cps[(iv),(vii)]	–	–	–	10.00 cps[(vi)]
Return of capital	6.30 cps[(vii)]	–	–	–	–
Operating earnings per security	3.12 cps	2.94 cps	2.63 cps	2.35 cps	3.46 cps
Basic earnings per security	1.02 cps	4.79 cps	4.48 cps	2.84 cps	16.96 cps
Diluted earnings per security	1.02 cps	4.67 cps	4.39 cps	2.79 cps	16.60 cps

(i) Includes operating earnings from the Healthcare division while it was a continuing operation (divested on 26 June 2016).
(ii) Comprised of a fully franked dividend of 1.13 cps (at 27.5% corporate income tax rate) and a trust distribution of 0.47 cps
(iii) Comprised of a fully franked dividend of 0.80 cps (at 26% corporate income tax rate) and a trust distribution of 0.75 cps
(iv) Franked to 100% at 27.5% corporate income tax rate
(v) Franked to 45% at 27.5% corporate income tax rate
(vi) Franked to 100% at 30% corporate income tax rate
(vii) Stapling non-cash special dividend and capital return made on 13 December 2019 and compulsorily applied to subscribe for units in the APD Trust in accordance with the stapling proposal approved by APD shareholders on 20 November 2019.

Remuneration as a percentage of actual aggregate remuneration for the year ended 30 June 2020

	Non Performance based		Performance based remuneration			
	Fixed remuneration		LTI – Performance shares		STI – Cash based	
	2020	2019	2020	2019	2020	2019
Directors – Executive						
Christopher Aylward, Non-Executive Chairman	100.00%	100.00%	–	–	–	–
Timothy Slattery, CEO	87.89%	61.97%	7.55%	20.00%	4.56%	18.03%(ii)
Directors – Non-Executive (APN)	–					
Clive Appleton (Independent)	100.00%	100.00%	–	–	–	–
Howard Brenchley (Independent)(i)	100.00%	100.00%	–	–	–	–
Danielle Carter (Independent)(iv)	100.00%	–	–	–	–	–
Anthony Young (Independent)(v)	100.00%	100.00%	–	–	–	–
Directors – Non-Executive (APN FM)						
Geoff Brunsdon (Independent)	100.00%	100.00%	–	–	–	–
Jennifer Horrigan (Independent)	100.00%	100.00%	–	–	–	–
Michael Johnstone (Independent)	100.00%	100.00%	–	–	–	–
Key Management Personnel						
Joseph De Rango(vi)	72.78%	–	12.93%	–	14.29%	–
Michael Groth(vii)	(59.26%)	55.77%	131.99%	28.46%	27.27%	15.77%(ii)
Chantal Churchill	89.75%	89.86%	0.29%	2.93%	9.96%(iii)	7.21%(iii)

(i) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(ii) Includes the STI entitlement for the prior year's performance based on the STI plan as disclosed in the Remuneration report.
(iii) STI awarded and paid in relation to the Company's performance for the prior financial year. The STI entitlement in relation to the current year's performance will be awarded and paid in the year ended 30 June 2021, out of the general STI provision established in the current financial year.
(iv) Appointed 3 March 2020.
(v) Resigned 30 August 2019.
(vi) Appointed 1 September 2019. STI awarded and paid in relation to the Company's performance for the prior financial year.
(vii) Resigned 2 July 2019. Forfeited STIs and options due to failure to meet vesting condition and termination of employment.

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:

2020	Short-term employee benefits Salary & fees $	STIs $	Non-monetary $	Post-employment benefits Super-annuation $	Other long-term employee benefits Long service leave $	Other Termination benefits $	Share-based payments[iii] Equity-settled Options and rights (LTIs) $	Total $
Directors - Executive								
Timothy Slattery[i]	422,126	23,474[iv]	–	21,002	9,198	–	38,876	514,676
Directors - Non-Executive (APN)								
Christopher Aylward[i]	38,379	–	27,881[v]	3,646	–	–	–	69,906
Clive Appleton[i]	75,082	–	–	7,133	–	–	–	82,215
Howard Brenchley[i],[ii]	181,440	–	–	–	–	–	–	181,440
Danielle Carter	21,813	–	–	2,072	–	–	–	23,885
Anthony Young[i]	14,500	–	–	–	–	–	–	14,500
Directors - Non-Executive (APN FM)								
Geoff Brunsdon	217,350	–	–	–	–	–	–	217,350
Jennifer Horrigan	130,409	–	–	–	–	–	–	130,409
Michael Johnstone	102,296	–	–	–	–	–	–	102,296
Key Management Personnel								
Joseph De Rango[i]	273,222	60,500[vi]	–	20,983	13,925	–	54,765	423,395
Michael Groth[i]	99,811	(183,881)[vii]	–	10,501	–	289,295	(890,072)[vii]	(674,346)
Chantal Churchill[i]	198,630	24,629[viii]	–	19,240	4,081	–	726	247,306
Total compensation: (Group)	1,775,058	(75,278)	27,881	84,577	27,204	289,295	(795,705)	1,333,032
Total compensation: (Company)	1,325,003	(75,278)	27,881	84,577	27,204	289,295	(795,705)	882,977

(i) Company and Group.
(ii) Howard Brenchley is also a Non-Executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(iii) Options priced using Black-Scholes option pricing model. The value of options granted or modified during the period is recognised in compensation over the remaining vesting period of the grant.
(iv) Adjustment for under accrual of the FY19 STI entitlement of $23,474. In accordance with the terms of the STI plan, payment of the STI is subject to continuing employment at the time of payment, with payment of 50% of the STI incentive entitlement deferred for 12 months.
(v) This relates to travel benefits and the associated fringe benefit tax incurred during the year.
(vi) STIs awarded and paid in relation to the Company's performance for the prior financial year.
(vii) Forfeited STIs and options due to failure to meet vesting condition and termination of employment.
(viii) 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 2021, out of the general STI provision established in the current financial year.

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

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

Loans to key management personnel

There are no loans to key management personnel in the current period (2019: $nil).

Key management personnel equity holdings

Fully paid ordinary shares of APN Property Group Limited

2020	Balance at 30 June 2019 No.	Granted as compens-ation No.	Received from share gift plan No.	Purchased No.	Disposed No.	Balance at 30 June 2020 No.	Balance held nominally No.
Directors							
Christopher Aylward	80,350,000	–	–	700,000	–	81,050,000	–
Clive Appleton	915,001	–	–	–	–	915,001	–
Howard Brenchley	9,500,000	–	–	–	–	9,500,000	–
Timothy Slattery	598,180	–	–	–	–	598,180	–
Danielle Carter(i)	–	–	–	46,728	–	46,728	–
Key Management Personnel							
Joseph De Rango(ii)	2,693	–	–	–	–	2,693	–
Chantal Churchill	2,610	–	–	–	–	2,610	–

(i) Appointed 2 March 2020.
(ii) Appointed 1 September 2019.

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

Share options of APN Property Group Limited

2020	Balance at 30 June 2019 No.	Granted as compens-ation No.	Exercised No.	Other changes No.	Balanace at 30 June 2020 No.	Balance vested at 30 June 2020 No.	Vested but not exercis-able No.	Vested and exercisable No.	Options vested during year No.
Directors									
Clive Appleton	3,900,001	–	–	–	3,900,001	3,900,001	–	3,900,001	–
Timothy Slattery	15,000,000	–	–	–	15,000,000	12,046,111	–	12,046,111	4,546,111
Key Management Personnel									
Joseph De Rango	500,000	2,000,000	–	–	2,500,000	712,295	–	712,295	712,295
Michael Groth[(i)]	10,025,000	–	–	(2,525,000)	7,500,000	7,500,000	–	7,500,000	–
Chantal Churchill	250,000	–	–	–	250,000	151,536	–	151,536	151,536

(i) Resigned 2 July 2019.

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

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

Further details of the employee share option plan and share options granted are contained in note 28.

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

Christopher Aylward
Chairman
20 August 2020

APN CORPORATE GOVERNANCE STATEMENT

APN Property Group (**APN**) comprises the staple of APN Property Group Limited (**APN PG or Company**) and APD Trust (the Trust) and trades on the Australian Securities Exchange (**ASX**) under the code APD.

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

The board of APN PG (**Board**) comprises five directors, one Non-Executive Director (the Chairman), three independent directors and the Managing Director/Chief Executive Officer, who collectively have a relevant interest in over 33% of the issued capital of the Company. The Board is responsible for the overall management of the Company and of the APN Group and is strongly focused on serving the interests of all stakeholders.

The board of APN RE comprises four Directors, one Non-Executive Director (the Chairman) and three Independent Directors, all of whom are also directors of APN PG. The boards of APN PG and APN RE co-operate to ensure that the interests of the Trust are aligned and therefore have adopted the same corporate governance practices, wherever the context permits and unless otherwise stated.

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

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

Through its directors, executives and staff, APN 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.

APN 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 Committee Charter
- Code of Conduct
- Communication and Continuous Disclosure Policy
- Conflicts of Interest and Related Party Transactions Policy
- Diversity Policy
- Privacy Policy
- Securities Trading Policy
- Whistleblower Policy
- Anti-Bribery and Corruption Policy
- Sustainability and Responsible Investment Policy

APN's full corporate governance statement can be downloaded from its website at https://apngroup.com.au/about-us/governance/. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 4th Edition), unless otherwise stated.

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AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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20 August 2020

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

Dear Board Members

APN Property Group Limited

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

As lead audit partner for the audit of the financial report of APN Property Group Limited for the financial year ended 30 June 2020, 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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Stapled Security Holders of APN Property Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of APN Property Group Limited (the "Company") and its subsidiaries (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key Audit Matters

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

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Accounting for the Group stapling
 	
On 13 December 2019, the Group completed a stapling of the ordinary shares in the Company to the ordinary units in APD Trust (the "Trust"), a wholly controlled entity of the Company, to form a stapled group. The Stapled Group retains the same ASX ticker code ('APD') and continues to trade as APN Property Group.
 	
The intra-Group transactions that took place in order to achieve the stapling are detailed in Note 19. In addition, the Trust also issued management units to the Company in exchange for a receivable. These management units were issued to reduce the outstanding funding between APD and APD Trust following the stapling distribution described in Note 19.
 	
Significant effort was incurred by management in determining the appropriate restructuring steps for both tax and accounting purposes. Specifically, judgement was applied in applying appropriate accounting policies for the management units, the transfer of the investment interests, as well as determining the acquisition accounting relating to the stapling arrangement.
	Our procedures included, but were not limited to:
	
	- Inspecting the constitution of the Trust, legal correspondence, and all stapling-related announcements disclosed on the Australian Securities Exchange.
	- Obtaining management's accounting paper (which was tabled at the February 2020 board meeting) in relation to the recognition and measurement of the stapling transaction and assessing the appropriateness of the treatment, including:
	  • Assessing the accounting treatment of the management units issued.
	  • Evaluating the fair value of the investments and the loan transferred to the Trust.
	  • Evaluating the appropriateness of treating the stapling as a group reorganisation with the Company as the deemed parent.
	- Engaging with our tax specialists on the appropriateness of the tax treatment of the restructure.
	
	We have also assessed the appropriateness of the disclosures included in Note 19 to the financial statements.

Accuracy of Fund Management, Registry, and Performance Fee Revenue Management, registry, and performance fees recorded as revenue within the statement of profit or loss and other comprehensive income are disclosed within Note 5. The amount of fee revenue recognised at year-end are as follows: $15,364,000 in Funds Management fees $180,000 in Performance fees $2,200,000 in Registry fees The Group oversees and manages real estate funds and agreements with third parties. Management, registry, and performance fee	Our procedures included, but were not limited to: - Testing the effectiveness of controls in relation to the calculation of management fees and performance fees. - Performing substantive analytical procedures over fee revenue items in accordance with contractual arrangements. - Assessing the performance of the underlying funds against benchmarks and reviewing third party agreements to

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
revenue is earned by the group for providing these services in accordance with relevant Disclosure Documents. These revenue streams are quantitatively material to the Group and are subject to judgement and variability with regards to the size and timing of the fees recognised.	assess whether the relevant recognition criteria had been met. - Agreeing the criteria for recognition of management, registry, and performance fees to Disclosure Documents to ensure appropriate revenue recognition. We have also assessed the appropriateness of the disclosures included in Note 2 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): 2020 Financial Year Highlights, Letter from the Chairman, Letter from the Chief Executive Officer, Directors' Report and Summary of Shareholders, which is expected to be made available to us after that date.

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

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

When we read the 2020 Financial Year Highlights, Letter from the Chairman, Letter from the Chief Executive Officer, Directors' Report and Summary of Shareholders, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material

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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, actions taken to eliminate threats or safeguards applied.

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.

INDEPENDENT AUDITOR'S REPORT

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26-36 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of APN Property Group Limited, for the year ended 30 June 2020, 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

Neil Brown
Partner
Chartered Accountants

Melbourne, 20 August 2020

DIRECTORS' DECLARATION

The Directors declare that:

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

(b) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the Group; and

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

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

On behalf of the Directors

Christopher Aylward
Chairman
20 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Continuing operations			
Revenue	5	26,492	26,730
Cost of sales		(140)	(135)
Net revenue		26,352	26,595
Finance income	6	153	433
Administration expenses		(13,770)	(13,925)
Business development and other costs	7	(527)	(2,186)
Fair value adjustments		(13,102)	9,707
Finance costs	6	(458)	(521)
Profit before tax		(1,352)	20,103
Income tax expense	8	5,550	(5,580)
Profit for the year from continuing operations		4,198	14,523
Discontinued operations			
Profit for the year from discontinued operations	9	–	10
Profit for the year		4,198	14,533
Total comprehensive income for the year		4,198	14,533
Profit / (Loss) / Total comprehensive income attributable to:			
Equity holders of the parent – Company		18,011	14,533
Equity holders of the non-controlling interests –Trust		(13,813)	–
		4,198	14,533
Basic Earnings per security (cents) attributable to:			
Equity holders of the parent – Company	14	5.89	4.79
Equity holders of the non-controlling interests – Trust	14	(4.87)	–
Basic earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group		1.02	4.79
Diluted Earnings per security (cents) attributable to:			
Equity holders of the parent – Company	14	5.89	4.67
Equity holders of the non-controlling interests – Trust	14	(4.87)	–
Diluted earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group		1.02	4.67

Notes to the consolidated financial statements are included in accompanying pages.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	24	16,299	15,672
Trade and other receivables	25	5,983	5,554
Financial assets – held for sale	10	6,946	11,376
Total current assets		29,228	32,602
Non-current assets			
Financial assets	10	107,561	116,096
Property, plant and equipment	12	549	396
Intangible assets	11	1,700	1,756
Right of use assets	16	2,108	–
Deferred tax assets	8	552	–
Total non-current assets		112,470	118,248
Total assets		141,698	150,850
Current liabilities			
Trade and other payables	26	8,993	3,453
Current tax liabilities	8	852	210
Provisions	27	3,485	3,343
Borrowings	15	–	6,004
Lease liability	16	460	–
Total current liabilities		13,790	13,010
Non-current liabilities			
Borrowings	15	9,000	–
Provisions	27	326	1,061
Lease liability	16	1,742	–
Deferred tax liabilities	8	–	8,969
Total non-current liabilities		11,068	10,030
Total liabilities		24,858	23,040
Net assets		116,840	127,810
Contributed equity **Equity holders of the parent – Company**			
Issued capital	17	82,854	102,885
Reserves	18	4,377	5,271
Retained earnings		23,466	19,654
		110,697	127,810
Equity holders of non-controlling interests – Trust			
Issued capital	17	23,851	–
Retained earnings		(17,708)	–
		6,143	–
Total equity		116,840	127,810

Notes to the consolidated financial statements are included in accompanying pages.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	APN Property Group Limited				APD Trust	
	Share capital $'000	Retained earnings $'000	Equity-settled employee benefits reserve $'000	Total Attributable to equity holders of the parent $'000	Non-controlling interests $'000	Total equity of the Group $'000
Balance at 1 Jul 2018	102,882	12,180	4,810	119,872	–	119,872
Profit for the year	–	14,533	–	14,533	–	14,533
Payment of dividends (note 13)	–	(7,059)	–	(7,059)	–	(7,059)
Share options exercised by employees	3	–	–	3	–	3
Recognition of share-based payments expense	–	–	461	461	–	461
Balance at 30 June 2019	102,885	19,654	5,271	127,810	–	127,810
Balance at 1 Jul 2019 (as previously reported)	102,885	19,654	5,271	127,810	–	127,810
Effect of change in accounting policy for the initial application of AASB 16 Leases	–	477	–	477	–	477
Balance as at 1 Jul 2019 (restated)	102,885	20,131	5,271	128,287	–	128,287
Profit for the year	–	18,011	–	18,011	(13,813)	4,198
Equity consolidation to facilitate formation of the Group	(20,035)	(3,816)	–	(23,851)	23,851	–
Payment of dividends (note 13)	–	(10,860)	–	(10,860)	(3,895)	(14,755)
Share options exercised by employees	4	–	–	4	–	4
Recognition of share-based payments expense	–	–	(894)	(894)	–	(894)
Balance at 30 June 2020	82,854	23,466	4,377	110,697	6,143	116,840

Notes to the consolidated financial statements are included in accompanying pages.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		18,844	19,428
Payments to suppliers and employees		(14,816)	(13,379)
Interest received		170	438
Distributions received		7,987	7,703
Interest and other costs of finance paid		(341)	(501)
Income taxes paid		(3,511)	(2,572)
Net cash provided by operating activities	24	8,333	11,117
Cash flows from investing activities			
Payments for investments		(4,750)	(24,810)
Proceeds on sale / return of capital from investments		4,744	9,309
Payments for property, plant and equipment		(371)	(61)
Net cash flow on disposal of subsidiary	31	–	12,187
Net cash provided by / (used in) investing activities		(377)	(3,375)
Cash flows from financing activities			
Repayment of the lease liabilities		(534)	–
Proceeds of borrowings		2,996	–
Proceeds from issue of equity securities		4	3
Dividends paid	13	(9,795)	(7,059)
Net cash provided by / (used in) financing activities		(7,329)	(7,056)
Net increase / (decrease) in cash and cash equivalents		627	686
Cash and cash equivalents at the beginning of the financial year		15,672	14,986
Cash and cash equivalents at the end of the financial year	24	16,299	15,672

Notes to the consolidated financial statements are included in accompanying pages.


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NOTES TO THE FINANCIAL STATEMENTS

Contents

NOTES TO THE FINANCIAL STATEMENTS

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. APD Trust (the "Trust") is a registered managed investment scheme domiciled in Australia.

The 'APN Property Group' stapled group (the "Group" or "APD") was established on 13 December 2019 by stapling the securities of the following entities:

- APN Property Group Limited and its consolidated entities ("APN" or "Company"); and
- APD Trust (the "Trust" or "APD Trust")

The Group retained the same ASX ticker code ('APD') and continues to trade as APN Property Group.

The Group registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne Victoria 3000.

The principal activity of the Company and the Group during the financial year was funds management. The principal activity of the Trust is to invest in listed securities and managed investment schemes.

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 20 August 2020.

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 30 for a list of controlled entities (subsidiaries) as at year end. Control is achieved where the Company:

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

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

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

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

2.3 Going concerns

The Directors have assessed the Group's ability to continue as a going concern taking into account available information for a period of 12 months from the date of issuing these financial statements. Whilst the COVID-19 pandemic is still evolving, the Directors remain comfortable that the Group will be able to continue as a going concern considering the underlying Funds that it manages are expected to continue as a going concern and remain solvent.

The financial statements have therefore been prepared on a going concern basis.

2.4 Foreign currencies

Transactions in currencies other than an entities functional currency (i.e. a foreign currency transaction) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising from retranslation are recognised in the profit or loss in the period in which they arise.

2.5 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.

2.6 The notes to the financial statements

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

Note	Description
Note 11 – Intangible assets	Impairment of management rights
Note 21 – Financial risk management	Valuation of Level 3 financial instruments

Performance

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

4. Segment Information

4.1 Operating Segments

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

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

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

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

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

4.2 Segments revenues and results

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

	Segment revenue Year ended		Segment net revenue[i] Year ended		Segment profit Year ended	
	30 June 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000
Continuing operations						
Real estate securities funds	9,208	9,748	9,123	9,623	2,479	3,914
Industrial real estate fund	5,068	3,994	5,013	3,994	2,902	2,242
Convenience retail property fund	2,565	2,400	2,565	2,400	1,657	1,564
Direct real estate funds	1,647	1,901	1,647	1,901	559	606
Investment revenue	7,912	8,635	7,912	8,625	7,912	8,625
	26,400	26,678	26,260	26,543	15,509	16,951
Unallocated revenue and expenses						
Other income	92	52	92	52	92	52
Finance income					153	433
Central administration					(2,315)	(4,192)
Depreciation					(704)	(141)
Finance costs					(458)	(521)
	26,492	26,730	26,352	26,595	12,277	12,582
Income tax expense					(1,927)	(3,350)
Net operating earnings after tax & Non-controlling interests (NCI)					10,350	9,232
Business acquisition costs					(659)	(761)
Pre-tax fair value adjustments					(13,102)	9,707
Gain on disposal of investments					132	–
Loss on disposal of subsidiary (note 31)					–	(1,425)
Income tax expense					7,477	(2,230)
					(6,152)	5,291
Total from continuing operations	26,492	26,730	26,352	26,595	4,198	14,523
Discontinued operations						
European real estate funds	–	–	–	–	–	(32)
Healthcare real estate fund	–	–	–	–	–	42
					–	10
Total	26,492	26,730	26,352	26,595	4,198	14,533

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

The revenue reported above includes revenue generated from related parties of $25,867,000 (2019: $25,387,000) and revenue from external parties of $625,000 (2019: $1,343,000). This represents the analysis of the Group's revenue from its major products. Related party transactions are disclosed in note 32. There were no intersegment sales during the year.

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

4.3 Segments assets and liabilities

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

4.4 Geographical information

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

4.5 Information about major customers

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

Revenue from major customers	2020 $'000	2019 $'000
Customer A included in revenue from Real estate securities funds	7,481	7,860
Customer B included in revenue from Industrial real estate fund	5,068	3,994
Customer C included in revenue from Convenience retail property fund	2,565	2,400

5. Revenue

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

2020	Real estate securities funds $'000	Industrial real estate fund $'000	Convenience retail property fund $'000	Direct real estate funds $'000	Investment revenue $'000	Total $'000
Funds management fees	7,198	4,375	2,475	1,316	–	15,364
Performance and transaction fees	–	–	–	180	92	272
Asset, leasing and project management fees	–	693	–	51	–	744
Registry and other income	2,010	–	90	100	–	2,200
	9,208	5,068	2,565	1,647	92	18,580
Distribution income (i) (ii)	–	–	–	–	7,912	7,912
	9,208	5,068	2,565	1,647	8,004	26,492

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

(i) 'Distribution income' is from financial assets classified as at fair value through profit or loss.
(ii) Includes distribution income from related party co-investments of $7,911,000 (2019: $7,984,000).

Recognition and measurement

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

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

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

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

6. Finance income and costs

6.1 Finance income

Continuing operations	2020 $'000	2019 $'000
Bank deposits	153	433

6.2 Finance costs

Continuing operations	2020 $'000	2019 $'000
Loan	(326)	(507)
Bank charges	(15)	(14)
Lease liabilities interest expense	(117)	–
	(458)	(521)

Recognition and measurement

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

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

7. Expenses

Continuing operations	2020 $'000	2019 $'000
Profit/(Loss) for the year has been arrived at after (charging)/crediting the following:		
(a) Gains and losses and other expenses:-		
Depreciation of property, plant and equipment and software assets	(193)	(141)
Depreciation of right of use assets	(511)	–
Employee benefits expenses:		
Salaries and wages[(i)]	(7,692)	(7,894)
Superannuation contributions	(628)	(552)
Equity-settled share based payment transactions	894	(461)
Provision for long service and annual leave	(56)	(73)
Termination benefits	(502)	–
Operating lease expense	(160)	(600)
Write-down of property, plant and equipment	(81)	–
Direct operating expenses incurred from income generating investment properties	–	(3)
(b) Gain / (Loss) on disposal and business acquisition costs:-		
Aborted business development / acquisition costs	(179)	(97)
Group restructuring expenses	(480)	(664)
Gain on disposal of investment	132	–
Loss on disposal of subsidiaries (note 31)	–	(1,425)
	(527)	(2,186)

(i) Included in the salaries and wages is a JobKeeper payment of $298,500 received during the year.

Recognition and measurement

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

Employee benefits: Refer note 27 and note 28 for the Group's accounting policies for liabilities associated with employee benefits and share based payment transactions. Superannuation contribution plan payments are expensed when incurred.

Operating leases: Refer note 16 for the Group's accounting policy for lease (2019: Operating lease payments under AASB 117 were 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.

8. Income taxes

8.1 Income tax recognised in profit or loss

	2020 $'000	2019 $'000
Tax (expense)/income comprises:		
Current tax (expense)/income	(4,199)	(2,233)
Adjustments recognised in the current year in relation to prior years	47	232
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	9,567	(3,221)
Adjustments to deferred tax attributable to changes in tax rates and laws	135	(358)
Total tax expense for continuing operations	5,550	(5,580)
The expense for the year can be reconciled to the accounting profit as follows:		
(Loss) / Profit from operations	(1,352)	20,103
Less: Profit from APD Trust not subject to income tax	13,813	–
	12,461	20,103
Income tax expense calculated at 27.5% (2019: 27.5%)	(3,427)	(5,528)
Effect of expenses that are not deductible in determining taxable profit	(138)	(191)
Effect of income that is exempt from income tax	332	265
Effect of deferred tax balances from the implementation of Stapling	8,667	–
Effect on deferred tax balances due to the change in income tax rate from 27.5% to 26.0%, effective 1 July 2020 (2019: 30.0% to 27.5% effective 1 July 2018)	95	(358)
	5,529	(5,812)
Adjustments recognised in the current year in relation to the current tax of prior years	21	232
	5,550	(5,580)

For the year ended 30 June 2020, the tax-consolidated group is expected to be a base rate entity and have turnover less than $50.0 million. Accordingly, the corporate tax rate applicable to the tax-consolidated group is reduced from 27.5% to 26.0% with effect from 1 July 2020. The effect of this change in tax rate on deferred taxes has been disclosed above.

8.2 Income tax recognised directly in equity

During the year, there were no deferred tax assets (2019: $nil) arising from capital raising costs recognised directly in equity.

8.3 Current tax assets and liabilities

	2020 $'000	2019 $'000
Income tax (payable) / recievable	(852)	(210)

8.4 Deferred tax balances

2020 Temporary differences	Opening balance $'000	Recognised in profit and loss $'000	Recognised at equity $'000	Closing balance $'000
Provisions and accruals	1,514	(18)	(181)	1,315
Property, plant and equipment	4	(2)	–	2
Blackhole expenditure	206	29	–	235
Intangible assets	(510)	–	–	(510)
Unrealised gains on revaluation of investments	(10,183)	9,693	–	(490)
Net deferred tax assets / (liabilities)	(8,969)	9,702	(181)	552

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

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

	2020 $'000	2019 $'000
Deferred tax assets	552	–
Deferred tax liabilities	–	(8,969)
	552	(8,969)

8.5 Unrecognised deferred tax assets at the reporting date

There were no unrecognised deferred tax assets at reporting date (2019: $nil).

Recognition and measurement

Current tax

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

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them is realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than as a result of a business combination) of assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to the same taxation authority and the Group intends to settle its obligations on a net basis.

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

8.6 Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is APN Property Group Limited. The members of the tax-consolidated group are identified at note 30.

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

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

9. Discontinued operations

The European real estate funds segment continues to be wound down. It is currently anticipated that this process will take several further years to fully complete.

9.1 Analysis of profit for the year from discontinued operations

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

	2020 $'000	2019 $'000
Profit for the financial year from discontinued operations		
Revenue	–	–
Expenses (incurred) / reversed	–	10
(Loss) / Profit for the financial year from discontinued operations attributable to equity holders of the parent	–	10
Net cash flows from operating activities from discontinued operations	–	(50)

Capital Investment

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

10. Financial assets

	2020 $'000	2019 $'000
Financial assets carried at fair value through profit and loss(i)		
Current assets – Financial assets held for sale(ii)	6,946	11,376
Non-current assets – Financial assets(iii)	107,561	116,096
	114,507	127,472

(i) Included are co-investments in related parties amounting to $114,499,000 (2019: $127,460,000) (note 32.2).
(ii) Represents the sub-underwriting units acquired as part of the April 2019 APN Regional Property Fund recapitalisation and liquidity offer. This investment was acquired with the intention of progressively selling it down to new and existing investors over the coming 12 months. During the year, 3,205,000 units were sold and recognised a gain on disposal of $125,000. Subsequent to year end, APN has accepted offers to sell a further $1,161,000 as disclosed in Note 35.
(iii) Co-Investment in related parties with carrying amount of $59,447,000 (2019: $72,797,000) have been pledged to secure borrowings of the Group (note 15).

Recognition and measurement

Financial assets are recognised on the date the right to receive the benefits of the asset have been established. Financial assets are derecognised when the right to receive cash flows from the investments has expired or transferred substantially all risks and rewards of ownership.

Financial assets are classified as 'financial assets at fair value through profit or loss' as it is managed and its performance is evaluated on a fair value basis in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis. 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 21.

11. Intangible assets

	Management rights $'000	Software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2018	1,700	473	2,173
Additions	–	35	35
Balance at 30 June 2019	1,700	508	2,208
Write-off	–	(68)	(68)
Balance at 30 June 2020	1,700	440	2,140
Accumulated amortisation / impairment losses			
Balance at 1 July 2018	–	(431)	(431)
Depreciation expense	–	(21)	(21)
Balance at 30 June 2019	–	(452)	(452)
Depreciation expense	–	(30)	(30)
Write-off	–	42	42
Balance at 30 June 2020	–	(440)	(440)
Net book value			
As at 30 June 2019	1,700	56	1,756
As at 30 June 2020	1,700	–	1,700

11.1 Management Rights impairment assessment

During the year the Group assessed the recoverable amount of management rights totalling $1,700,000 (2019: $1,700,000) associated with the Group's management of APN Industria REIT. No impairment adjustment was recorded in the current year (2019: $nil).

Recognition and measurement

Software assets

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

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

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

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

Management rights

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

Impairment

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss at least annually. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of ‘fair value less costs to sell’ and ‘value in use’. In assessing ‘value in use’, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Derecognition

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

Key estimates and assumptions – Impairment of Management Rights

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

	APN Industria REIT	
	2020	2019
Discount rate (post tax)	9.3%	9.9%
Growth rate beyond 5 year plan	2.2%	1.3%
Head room as percentage of the CGU’s net carrying amount	94.1%	92.0%

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

12. Property, plant and equipment

	Leasehold Improvements at cost $'000	Plant and equipment at cost $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2018	733	487	1,220
Additions	3	23	26
Balance at 30 June 2019	736	510	1,246
Additions	300	71	371
Write-off	(359)	(464)	(823)
Balance at 30 June 2020	677	117	794
Accumulated amortisation / impairment losses			
Balance at 1 July 2018	(368)	(362)	(730)
Depreciation expense	(62)	(58)	(120)
Balance at 30 June 2019	(430)	(420)	(850)
Depreciation expense	(89)	(74)	(163)
Write-off / Disposal	328	440	768
Balance at 30 June 2020	(191)	(54)	(245)
Net book value			
As at 30 June 2019	306	90	396
As at 30 June 2020	486	63	549

Recognition and measurement

Plant, equipment and leasehold improvements

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

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

Impairment

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

Derecognition

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

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 security.

13. Dividends

	2020		2019	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary securities				
Recognised amounts – Company:				
2019 Final dividend: Fully franked at a 27.5% tax rate	0.675	2,118	–	–
2019 Final dividend: Unfranked	0.825	2,588	–	–
Stapling special dividend to facilitate the formation of the Group	1.200	3,816	–	–
2020 Interim dividend: Fully franked at a 27.5% tax rate	1.130	3,594	1.250	3,922
2020 Final dividend: Fully franked at a 26.0% tax rate	0.800	2,560	–	–
	4.630	14,676	1.250	3,922
Recognised amounts – Trust:				
2020 Interim distribution	0.470	1,495	–	–
2020 Final distribution	0.750	2,400	–	–
	1.220	3,895	–	–
	5.850	18,571	1.250	3,922
Unrecognised amounts				
Final dividend: Fully franked at a 27.5% tax rate	–	–	0.675	2,118
Final dividend: Unfranked	–	–	0.825	2,588
Total unrecognised final dividend amounts	–	–	1.500	4,706

On 13 December 2019, a special non-cash dividend of $3,816,232 (1.20 cps) and non-cash capital return of $20,035,215 (6.30 cps) paid by APN Property Group Limited of $23,851,447, to all shareholders registered on 11 December 2019, were compulsorily applied to subscribe for 318,019,289 units in APD Trust.

On 22 June 2020, the directors have declared a fully franked final dividend of 0.80 cps and final distribution of 0.75 cps for the year ended 30 June 2020 (2019: fully franked final dividend of 1.50 cents per share). This will be paid on 31 July 2020 to those investors registered on 30 June 2020.

	Company	
	2020 $'000	2019 $'000
Adjusted franking account balance	1,485	818
Impact on franking account balance of dividends not recognised	(899)	(803)
	586	15

14. Earnings per security

	2020	2019
Basic earnings per security (cents per security)		
Equity holders of the parent – Company	5.89	4.79
Equity holders of the non-controlling interests –Trust	(4.87)	–
Basic earnings per security (cents)	1.02	4.79
Diluted earnings per security (cents per security)		
Equity holders of the parent – Company	5.89	4.67
Equity holders of the non-controlling interests – Trust	(4.87)	–
Diluted earnings per security (cents)	1.02	4.67

14.1 Basic earnings per security

	2020 $'000	2019 $'000
The earnings used in the calculation of basic earnings per security is as follows:		
Profit for the year attributable to equity holders of the parent	18,011	14,533
Profit for the year attributable to equity of the non-controlling interests	(13,813)	–
Profit for the year from discontinued operations used in the calculation of basic earnings per security from discontinued operations	–	(10)
Adjustments to exclude treasury security dividends paid where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests: Ordinary dividends paid	(1,186)	(447)
Basic EPS earnings	3,012	14,076
Basic EPS earnings attributable to equity holders of the parent - Company	17,311	14,076
Basic EPS earnings attributable to equity of the non-controlling interests - Trust	(14,298)	–
	3,012	14,076

14.2 Diluted earnings per security

	2020 $'000	2019 $'000
The earnings used in the calculation of diluted earnings per security is as follows:		
Earnings used in the calculation of basic EPS	3,012	14,076
Adjustments to exclude treasury share dividends paid that are dilutive where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests	–	168
Diluted EPS earnings	3,012	14,244
Diluted EPS earnings attributable to equity holders of the parent – Company	17,311	14,244
Diluted EPS earnings attributable to equity of the non-controlling interests – Trust	(14,298)	–
	3,012	14,244

14.3 Weighted average number of securities (Basic and Diluted earnings per security)

	2020 '000	2019 '000
Basic EPS - Weighted average number of ordinary shares used in the calculation	293,891	293,891
Shares deemed to be issued for no consideration in respect of employee options	–	10,894
Diluted EPS - Weighted average number of ordinary shares used in the calculation	293,891	304,785
The following potential ordinary shares are not dilutive and are therefore are excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per security:		
Share options	23,390	12,402

15. Borrowings

	2020 $'000	2019 $'000
Secured – at amortised costs		
Secured bank loan(i)	9,000	6,004
Disclosed in the financial statements as:		
Current financial liabilities – Borrowings	–	6,004
Non-Current financial liabilities – Borrowings	9,000	–
	9,000	6,004
Total facilities available:		
Secured bank loans	9,000	8,000
Business card facility	200	200
Bank guarantee	500	500
	9,700	8,700
Facilities utilised at balance date:		
Secured bank loans	9,000	6,004
Business card facility	165	147
Bank guarantee	500	500
	9,665	6,651
Facilities not utilised at balance date:		
Secured bank loans	–	1,996
Business card facility	35	53
Bank guarantee	–	–
	35	2,049

During the period, the Groups' loans were:-

(i) This $9,000,000 (2019: $8,000,000) bank loan facility is repayable in September 2021 (2019: March 2020) and is secured by other financial assets with carrying amount of $59,447,000 as disclosed in note 10 (2019: $72,797,000). As at balance date, this facility is fully drawn (2019: drawn to $6,004,000), with a weighted average effective interest rate of 3.84% per annum (2019: 5.39%), and is subject to the following financial covenants:

	2020	2019
Loan To Value ratio will be less than 35% of the market value of the other financial assets pledged as security	15.14%	8.3%
Distribution Cover Ratio will not fall below 2.0 times	13.71 times	11.08 times

Recognition and measurement

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

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

16. Right of use assets and Leases

The Group leases commercial offices in Melbourne. The leases are typically with an option to renew and lease payments are reviewed when approaching the lease expiry date to reflect market rentals. Information about leases for which the Group is a lessee is presented below.

16.1 Right of use assets

	2020 $'000	2019 $'000
Balance as at 1 July 2019 – Right-of-use assets on adoption of AASB 16	2,619	–
Depreciation charges for the year	(511)	–
Balance at 30 June 2020	2,108	–

16.2 Lease liability

	2020 $'000	2019 $'000
Balance as at 1 July 2019 – Right-of-use assets on adoption of AASB 16	2,619	–
Lease payment	(534)	–
Interest expense	117	–
Balance at 30 June 2020	2,202	–
Disclosed in the financial statements as:		
Current lease liability	460	–
Non Current lease liability	1,742	–
	2,202	–
Lease liabilities are payable as follows:		
Less than one year	555	534
Between one and five years	1,883	2,438
More than five years	–	–
Future minimum lease payments	2,438	2,972
Future finance charges	(236)	–
Total lease liabilities	2,202	2,972

Recognition and measurement

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and are tested for impairment in accordance with AASB 136. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

17. Contributed equity

The Company	2020 Number of securities '000	2020 Total $'000	2019 Number of securities '000	2019 Total $'000
Balance at beginning of the year	313,743	102,885	313,743	102,882
Share options exercised by employees	–	4	–	3
Return of capital to facilitate the formation of the Stapling of the Group	–	(20,035)	–	–
Issue of shares under the APN Employee Performance Securities Plan	6,319	–	–	–
Share option buy-back under the APN Employee Share Plan	(25)	–	–	–
Balance at end of the year	320,037	82,854	313,743	102,885

The Trust (non-controlling interest)	2020 Number of securities '000	2020 Total $'000	2019 Number of securities '000	2019 Total $'000
Balance at beginning of the year	–	–	–	–
Securities issued to facilitate the formation of the Group	318,019	23,851	–	–
Issue of shares under the APN Employee Performance Securities Plan	2,018	–	–	–
Balance at end of the year	320,037	23,851	–	–

During the year, the Company issued 6,319,163 (2019: Nil) shares to eligible employees (including key management personnel) under the APN Employee Performance Securities Plan (EPSP) and cancelled 25,000 (2019: Nil) shares issued under the APN Employee Share Plan.

At 30 June 2020, included in issued fully paid ordinary securities of 320,036,975 (2019: 313,742,812) are 26,065,533 (2019: 19,774,796) treasury shares relating to employee share option plans.

On 13 December 2019, a special non-cash dividend of $3,816,232 (1.20 cps) and non-cash capital return of $20,035,215 (6.30 cps) was paid by the Company of $23,851,447, to all shareholders registered on 11 December 2019, and were compulsorily applied to subscribe for 318,019,289 units in the Trust. The units of the Trust have been stapled on a one-for-one basis to an equal number of shares in the Company (together a 'Stapled Security') to form APN Property Group. While the Trust remains stapled to the Company, the Trust units must only be issued, dealt with or disposed of in conjunction with the shares of the Company as a Stapled Security. Each security represents an APN Property Group Stapled Security and represents a right to an individual unit in the Trust and an individual share in the Company per the constitutions. There are no separate classes of securities and each security has the same rights attaching to it as all other securities in the Group.

18. Reserves

	Equity compensation reserve	
	2020 $'000	2019 $'000
Balance at beginning of financial year	5,271	4,810
Share-based payment	(894)	461
Balance at end of financial year	4,377	5,271

The nature and purpose of reserves

Equity compensation reserve

The equity compensation reserve is used to recognise the value of share options issued to key management personnel and employees under long term share based incentive plans. Amounts are transferred out of the reserve to issued capital when all options are exercised and all loans outstanding are repaid. Further information about share-based payments to employees is made in note 28.

19. Stapling

On 13 December 2019, APN completed the stapling of the ordinary shares in APN to ordinary units in the Trust to form a stapled group, as approved by shareholders at the 2019 annual general meeting (Stapling Proposal). The Stapling occurred by a 'contractual stapling of an ordinary unit in the Trust with an ordinary share in APN so that neither can be dealt with without the other in an identical manner, at the same time and subject to the same restrictions.' As a result, the shares in the APN are stapled to units in the Trust on a one-to-one basis, so that all securityholders hold units in the Trust and shares in the APN. The Group has retained the same ASX ticker code ('APD') and will continue to trade as APN Property Group.

The Trust was established by the transfer of the APN's interest in investments and a secured bank loan to the Trust in exchange for $23,851,447 of equity in the Trust and an intercompany loan. As the investments transferred were already held at fair value, there was no impact on the consolidated net assets. The Company distributed $23,851,447 to its shareholders through a $3,816,232 special fully franked dividend and a capital return distribution of $20,035,215. This amount was compulsorily applied to subscribe for units in the Trust.

The Stapling transaction has been treated as a group reorganisation as it does not meet the requirements of AASB 3 Business Combinations. APN is identified as the parent of the Group with the acquisition accounted for as a change in ownership without a loss of control. The issued ordinary units of the Trust are not owned by APN and are presented as non-controlling interests in the Group although units in the Trust are held directly by the shareholders of APN. The equity in the net assets of APD Trust and the profit/(loss) arising from those net assets have been separately identified in the statements of comprehensive income and financial position. APD Trust's contributed equity and retained earnings are shown as a non-controlling interest (NCI) in the consolidated financial statements in accordance with accounting standards.

20. 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 2019.

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 15). The Board is responsible for reviewing and monitoring the Group's capital structure on an on-going basis through gearing ratios (refer table below), debt covenant calculations and cashflow projections. The Group manages its capital structure through various methods including adjusting dividends paid, raising / repaying debt, issuing / buying-back shares and realising assets.

As a regulated fund manager, applicable entities in the Group are also subject to a number of prudential financial requirements. APN Funds Management Limited, in its capacity as a responsible entity and/or custodian is required to maintain at all times Net Tangible Assets (NTA) of the greater of $10 million or 10% of average revenue and APN RE Limited, in its capacity as a responsible entity for APD Trust is required to maintain at all times minimum NTA of the greater of $150,000; 0.5% of average value of scheme property or 10% of average revenue. A minimum of 50% of the NTA requirement for each responsible entity must be held in cash or cash equivalents. Compliance with these prudential financial requirements is monitored continuously by the Board, the independent board of APN Funds Management Limited and the board of APN RE Limited.

At 30 June 2020 the gearing ratio, calculated as debt to shareholders equity, was 7.7% (2019: 4.7%). This is calculated as follows:

	2020 $'000	2019 $'000
Debt (note 15)	9,000	6,004
Equity (includes share capital, reserves and retained earnings)	116,840	127,810
Debt to equity ratio	7.7%	4.7%

21. Financial risk management

21.1 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.

21.2 Market risks

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

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

21.3 Equity price risks

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

The exposure to equity price risk at the end of the reporting period, assuming equity prices had been 10% higher or lower while all other variables were held constant, would increase/decrease net profit by $10,990,000 (2019: $8,959,000).

21.4 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 2020, the terms of the Group's borrowing facilities are disclosed in note 15.

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

	Weighted average effective interest rate %	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5+ years $'000	Total $'000
2020						
Non-interest bearing – trade and other payables		8,993	–	–	–	8,993
Bank loans	3.84%	–	9,000	–	–	9,000
		8,993	9,000	–	–	17,993
2019						
Non-interest bearing – trade and other payables		3,453	–	–	–	3,453
Bank loans	5.39%	6,004	–	–	–	6,004
		9,457	–	–	–	9,457

21.5 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

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

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

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

At the reporting date there were no significant concentrations of credit risk. Ongoing credit evaluation is performed on the financial condition of customers and where appropriate an allowance for expected credit loss is recognised. For further details regarding trade and other receivables refer to note 25.

21.6 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 2020 there are no interest rate swaps in place (2019: 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 Group's net profit for the year ended 30 June 2020 would increase/decrease by $26,000 (2019: $35,000).

21.7 Fair value of financial instruments

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

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

- **Level 1:** the fair value is calculated from quoted prices (unadjusted) in active markets for identical assets or liabilities, and include listed property securities traded on the Australian Securities Exchange (ASX).
- **Level 2:** the fair value is estimated from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** the fair value is estimated from unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. For the Group this includes investments in unlisted funds whose primary assets are direct property assets. For more details of the Group's unlisted investments, refer note 32.

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 21.3 details the Group's sensitivity to equity price risk across financial instruments classified in Levels 1 – 3.

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

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

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

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

Financial assets at fair value through profit or loss	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020					
Financial assets	10	104,137	2,163	8,207	114,507
2019					
Financial assets	10	113,079	1,677	12,716	127,472

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 year:

Fair value through profit or loss	2020 $'000	2019 $'000
Balance at beginning of financial year	12,716	3,763
Total gains/(losses) recognised in profit or loss (note 7)	(131)	(947)
Purchases	95	19,200
Disposals	(4,473)	(7,320)
Return of capital received	–	(1,980)
Balance at end of financial year	8,207	12,716

22. Commitments

Commitments in relation to at call investment commitments as follows:

	2020 $'000	2019 $'000
At call investment commitments:		
Investment commitments to APN Development Fund No.2		
Less than one year	113	208
Between one and five years	–	–
More than five years	–	–
	113	208

23. Contingents assets and liabilities

23.1 Contingent assets

Leasing fees from APN Industria REIT

The Group provides leasing services to its managed funds and was entitled to charge market-based fees amounting to $517,000 (2019: $517,000). While APN Funds Management Limited remains the responsible entity of APN Industria REIT, these fees will not be charged.

23.2 Contingent liabilities

Responsible entity and/or Trustee of managed investment schemes

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

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

Efficiency of Operation

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

24. Cash and cash equivalents

	2020 $'000	2019 $'000
Reconciliation of cash and cash equivalent		
Cash and bank balances available to the Group	15,030	14,994
Cash balances held in trust for its managed funds / investors	1,269	678
Total cash and cash equivalents	16,299	15,672
Reconciliation of profit after tax to net cash flows from operating activities		
Profit / (loss) for the year	4,198	14,533
Add / (less) non-cash items:		
Depreciation	704	141
Amortisation of borrowings costs	–	20
(Gain) / Loss on disposal of co-investments	(132)	–
Loss on disposal of investment properties	–	1,383
Write down of property, plant and equipment	81	–
Provision for employee benefits	747	1,423
Lease liability interest expense	117	–
Provision for straight-line lease expense recognition	–	223
Equity-settled share based payment transactions	(894)	461
Gain on revaluation of investments	13,102	(9,707)
	17,923	8,477
(Increase) / decrease in trade receivables	265	684
(Increase) / decrease in other debtors	(791)	9
(Increase) / decrease in accrued income and prepayments	99	(269)
(Decrease) / increase in deferred tax liabilities / assets	(9,702)	3,580
(Decrease) / increase in provisions	(681)	(1,574)
(Decrease) / increase in payables	579	782
(Decrease) / increase in provision for income tax	641	(572)
	8,333	11,117

	2020 $'000	2019 $'000
Reconciliation of liabilities arising from financing activities		
Borrowings at beginning of financial year	6,004	16,495
Derecognition of borrowings on loss of control of a subsidiary (note 31)	–	(10,511)
Net proceeds from/(repayment of) interest bearing liabilities and lease liabilities	2,462	–
Non-cash changes: Interest expense during the year	117	20
Non-cash changes: Lease liabilities recognised on transition to AASB16 (note 16)	2,619	–
Net debts at end of financial year[(i)]	11,202	6,004

(i) Net debt comprises total interest bearing liabilities of $9,000,000 (2019: $6,004,000) as disclosed in note 15 and lease liabilities of $2,202,000 (2019: nil) as disclosed in note 16.

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

Recognition and measurement

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

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

25. Trade and other receivables

	2020 $'000	2019 $'000
Current financial assets		
Trade receivables	1,765	2,012
Allowance for expected credit loss	–	–
	1,765	2,012
Accrued income	3,857	3,175
Prepayments	361	367
Current trade and other receivables	5,983	5,554

(a) Movement in the allowance for expected credit loss in respect of:

	2020 $'000	2019 $'000
Balance at beginning of financial year	–	–
Impairment losses recognised	–	–
Impairment losses written-off	–	–
Balance at end of financial year	–	–

(b) Trade receivables past due but not impaired:

	2020 $'000	2019 $'000
31 – 60 days	–	–
61 – 90 days (i)	1	–
91 – 120 days (i)	1	–
+ 121 days (i)	–	–
	2	–

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

Recognition and measurement

Trade receivables

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

Loans

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

Impairment

The impairment allowance for financial assets (other than those measured at fair value through profit and loss) is measured using the simplified approach based on a lifetime expected credit loss. No impairment allowance was recognised in the current year (2019: nil).

26. Trade and other payables

	2020 $'000	2019 $'000
Current financial liabilities		
Trade payables	2,439	1,914
Dividend payable	4,960	–
Other creditors and accruals	1,594	1,539
	8,993	3,453

Recognition and measurement

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

27. Provisions

	2020 $'000	2019 $'000
Current liabilities		
Employee benefits	3,099	2,819
Other(i)	386	524
	3,485	3,343
Non-Current liabilities		
Employee benefits	326	402
Lease incentives	–	659
	326	1,061

	Lease incentives 2020 $'000	Employee benefits 2020 $'000	Other 2020 $'000
Balance at beginning of financial year	659	3,221	524
Effect of change in accounting policy for the initial application of AASB 16 Leases directly to opening retained earnings	(659)	–	–
Addition / (writeback) during the year	–	1,244	(91)
Payment / utilisation during the year	–	(1,040)	(47)
Balance at end of financial year	–	3,425	386

(i) Includes $213,000 (2019: $351,000) in relation to potential rebates payable to third parties in respect of the managed investment schemes that the Group manages.

Recognition and measurement

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the estimated cashflows to be incurred by the Group to settle the obligation, taking into account the obligations, risks and uncertainties.

Employee benefits

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

Lease incentives

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

Other Notes

28. 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.

28.1 Additional information on share based incentive plans

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

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

During the year, 2,000,000 share options issued under the EPSP and 3,750,000 share options were cancelled under the EPSP due to termination of employment (2019: Nil). At 30 June 2020, the fair value of the share options issued and included in the equity compensation reserve is $2,695,858 (2019: $3,589,290).

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, 25,000 shares were cancelled due to termination of employment (2019: nil) in accordance with the terms of the ESS. At 30 June 2020, the fair value of all existing share options issued and included in equity compensation reserve was $1,188,378 (2019: $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 2020, the fair value of share options issued and included in the equity compensation reserve was $104,000 (2019: $104,000). The shares are fully vested and can be exercised at any time.

APN Employee Share Gift Plan (ESGP)

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

At 30 June 2020, $45,000 (2019: $45,000) has been recognised as employee expenses and included in the equity compensation reserve.

NOTES TO THE FINANCIAL STATEMENTS

28.2 Share option arrangements

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

Option series	Plan	Number	Grant date, Modification date	Exercise price	Fair value per option at grant date	Fair value per option revalued at modification date	Fair value per option at modification date
(1) 10 September 2004	CAST	3,900,001	10.09.2004	$0.31	$0.01	N/A	N/A
(2) 20 June 2005	ESS	162,000	20.06.2005	$1.00	$0.01	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.01	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.30	N/A	N/A
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.45	N/A	N/A
(5) 23 November 2007	ESS	7,500	23.11.2007	$2.87	$0.78	N/A	N/A
(5) 23 November 2007	ESS	7,500	23.11.2007	$2.87	$0.92	N/A	N/A
(11) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.08	N/A	N/A
(12) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.12	N/A	N/A
(13) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.14	N/A	N/A
(15) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.07	$0.05	$0.05
(16) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.09	$0.05	$0.06
(17) Issued 7 December 2016, modified 21 November 2018*	TSESP	2,500,000	07.12.2016, 21.11.2018	$0.40	$0.09	$0.05	$0.08
(21) Issued 22 December 2016, modified 30 April 2018	EPSP	833,332	22.12.2016, 30.04.2018	$0.40	$0.07	$0.03	$0.06
(22) Issued 22 December 2016, modified 30 April 2018	EPSP	833,334	22.12.2016, 30.04.2018	$0.40	$0.09	$0.06	$0.07
(23) Issued 22 December 2016, modified 30 April 2018	EPSP	833,334	22.12.2016, 30.04.2018	$0.40	$0.09	$0.06	$0.07
(24) Issued 12 September 2017, modified 30 April 2018	EPSP	83,333	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.06
(25) Issued 12 September 2017, modified 30 April 2018	EPSP	83,333	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.07
(26) Issued 12 September 2017, modified 30 April 2018	EPSP	83,334	12.09.2017, 30.04.2018	$0.40	$0.08	$0.06	$0.07
(27) 1 September 2019	EPSP	500,000	01.09.2019	$0.53	$0.06	N/A	N/A
(28) 1 September 2019	EPSP	500,000	01.09.2019	$0.53	$0.08	N/A	N/A
(29) 1 September 2019	EPSP	500,000	01.09.2019	$0.53	$0.09	N/A	N/A
(30) 1 September 2019	EPSP	500,000	01.09.2019	$0.53	$0.09	N/A	N/A

Series (15), (21) & (24): The key management personnel receiving these options are entitled to the beneficial interest when the service and performance criteria have been satisfied. or in the event of a change of control of the Company. The service and performance criteria is assessed semi annually commencing on 30 June 2017 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle of 3.13 cps (increased by 0.33 cps from 2.80 cps) (performance criteria) has been achieved. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2018 from 30 November 2019 for Series (15) / 30 November 2020 for Series (21) & (24) to 31 December 2020.

Series (16), (22), (25) & (27): 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 for series (16), (22) & (25) and on 31 December 2019 for series (27) and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.13 cps (increased by 0.33 cps from 2.80 cps) (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 3.58 cps (increased by 0.33 cps from 3.25 cps) at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020 for series (16), (22) & (25) and series (27) expire on 31 December 2024.

Series (17), (23), (26) & (28): 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 for series (17), (23) & (26) and on 31 December 2019 for series (28) and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 3.58 cps (increased by 0.33 cps from 3.25 cps) (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.03 cps (increased by 0.33 cps from 3.70 cps) at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights. The expiry date was extended on the 30 April 2018/21 November 2019 from 30 November 2019/30 November 2020 to 31 December 2020 for series (17), (23) & (26) and series (28) expire on 31 December 2024.

Series (29): 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 31 December 2019 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 4.03 cps (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.48 cps at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights and unless vested expire on 31 December 2024.

Series (30): 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 31 December 2019 and requires that the individual remains employed at the date of the assessment (service criteria) and that the adjusted annual EPS performance hurdle exceeds 4.48 cps (performance criteria). The number of options that vest is determined on a pro-rata basis based on an adjusted EPS performance hurdle of 4.93 cps at which point 100% of the entitlement has vested. The options carry neither dividend nor voting rights and unless vested expire on 31 December 2024.

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

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

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

28.3 Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year was $0.08 (2019: 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%
15	$0.40	$0.40	13.4%	2 years	4.38%	1.83%
16 & 17	$0.40	$0.40	15.3%	3 years	4.38%	1.97%
21	$0.40	$0.40	13.4%	2 years	4.38%	1.98%
22 & 23	$0.40	$0.40	15.3%	3 years	4.38%	2.11%
24, 25 & 26	$0.41	$0.40	11.8%	4 years	4.88%	2.04%
15, 21 & 24 (modified)	$0.41	$0.40	10.5%	2 years	5.43%	2.09%
16, 22 & 25 (modified)	$0.41	$0.40	10.7%	3 years	5.43%	2.13%
17, 23 & 26 (modified)	$0.41	$0.40	11.4%	3 years	5.43%	2.19%
27	$0.55	$0.53	6.0%	3 years	5.00%	0.71%
28	$0.55	$0.53	8.4%	4 years	5.00%	0.69%
29	$0.55	$0.53	9.5%	5 years	5.00%	0.70%
30	$0.55	$0.53	9.8%	6 years	5.00%	0.79%

28.4 Movements in share options and balance outstanding

	2020		2019	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Opening balance	33,774,795	$0.35	33,777,460	$0.35
Granted	2,000,000	$0.53	–	–
Forfeited	(3,775,000)	$0.15	–	–
Exercised	(3,426)	$1.00	(2,665)	$1.00
Closing balance	31,996,369	$0.39	33,774,795	$0.35
Exercisable at end of the financial year[(i)]	26,065,533	$0.38	19,774,796	$0.37

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

Unvested share options have a weighted average remaining contractual life of 575 days (2019: unvested share options had a weighted average remaining contractual life of 549 days). Vested share options with limited recourse loans outstanding have no maturity date and thus have an indefinite contractual life.

28.5 Share options exercised during the year

Options series	Number exercised	Exercise date	Share price at exercise date
2020			
(2) 20 June 2005	1,508	26 September 2019	$0.53
(2) 20 June 2005	1,918	13 March 2020	$0.57
2019			
(2) 20 June 2005	1,184	27 September 2018	$0.45
(2) 20 June 2005	1,480	15 March 2019	$0.45

29. Key management personnel compensation

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

	2020 $	2019 $
Short-term employee benefits	1,727,661	2,152,683
Post-employment benefits	84,577	70,583
Other long-term benefits	27,204	34,448
Share-based payment expense	(795,705)	363,383
Termination payments	289,295	–
	1,333,032	2,621,097

30. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2020 %	2019 %
Parent entity			
APN Property Group Limited (APN PG)(i)	Australia		
Subsidiaries			
APN Funds Management Limited (APN FM)(ii),(iii)	Australia	100%	100%
APN Development and Delivery Pty Limited (APN DD)(iii)	Australia	100%	100%
APN Property Group Nominees Pty Limited(iii)	Australia	100%	100%
APN Asset Services Pty Ltd(iii)	Australia	100%	100%
Industria Company No.2 Pty Ltd(iii)	Australia	100%	100%
Convenience Retail Management Pty Limited (CRM)(iii)	Australia	100%	100%
APN RE Limited(iii)	Australia	100%	100%
APD Trust(iv)	Australia	100%	100%

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

(i) APN PG is the head entity within the tax-consolidated group.
(ii) APN PG was incorporated on 1 July 2004. On 10 September 2004, APN PG acquired APN DD and APN FM. Due to the reverse acquisition accounting treatment, APN FM is deemed to be the accounting parent.
(iii) These companies are members of the tax-consolidated group.
(iv) During the year, following the Stapling, APD Trust is disclosed as NCI in the consolidated financial statements.

31. Disposal of Subsidiaries

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

31.1 Consideration received

	2020 $'000	2019 $'000
Gross consideration received		
Repayment of intercompany loan after divestment	–	9,311
Payment for net assets	–	3,070
	–	12,381

31.2 Analysis of assets and liabilities over which control was lost

	2020 $'000	2019 $'000
Cash and cash equivalents	–	169
Trade receivables and other receivables	–	40
Investment Properties – held for sale	–	24,200
Borrowings associated with Investment Property – held for sale (note 24)	–	(10,511)
Other payables	–	(117)
	–	13,781

31.3 Loss on disposal

	2020 $'000	2019 $'000
Consideration received	–	12,381
Net assets divested	–	(13,781)
Net transaction costs incurred	–	(25)
Loss on disposal (note 4 / note 7)	–	(1,425)

31.4 Net cash flow

	2020 $'000	2019 $'000
Consideration received (net of transaction costs incurred)	–	12,356
Less: cash and cash equivalents divested	–	(169)
	–	12,187

Included in the net profit for the year ended 30 June 2019 up to the loss of control on 8 November 2018 is revenue totalling $645,000 and net profit after tax of $692,000.

32. 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.

32.1 Transactions with key management personnel

(a) Loans to management personnel

There were no loans to management personnel as at 30 June 2020 (2019: $nil).

(b) Other transactions with key management personnel

The APN employee benefit program was introduced in 2018 to provide existing eligible employees with fee rebates on selected Funds' Management Expense Ratios. The fee rebates are paid in the form of additional units in the applicable Fund and the Group reserves the right to vary or terminate the APN employee benefit program at any time at its sole and absolute discretion. Key management personnel holdings (either directly, indirectly or beneficially) and the benefits received that are subject to this arrangement are outlined as follows:

		During the year		
Key management personnel holdings	Name of fund	Fee rebates $	Units received No.	Balance at 30 June 2020 No. of units
Christopher Aylward	APN Asia REIT Fund	2,708	1,404	501,760
Christopher Aylward	APN Regional Property Fund	53,998	–	2,439,704
Clive Appleton	APN AREIT Fund	4,784	2,842	392,053
Clive Appleton	APN Asia REIT Fund	3,334	1,730	198,536
Clive Appleton	APN Property for Income Fund No.2	101	64	9,141
Howard Brenchley	APN AREIT Fund	1,332	715	98,593
Chantal Churchill	APN Asia REIT Fund	5	3	905

32.2 Equity interests and transactions with related parties

Details of the percentage of ordinary shares/units held in subsidiaries are disclosed in note 30. 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 / NCI		Total	
	2020 $	2019 $	2020 $	2019 $	2020 $	2019 $
Subsidiaries						
Dividends	12,000,000	10,000,000	–	–	12,000,000	10,000,000
Transfer of investment(i)	108,662,111	–	–	–	108,661,111	–
Finance income(ii)	500,947	250,027	–	–	500,947	250,027
Equity-settled share based payment transactions	(403,512)	252,312	–	–	(403,512)	252,312
Other related parties from continuing operations						
Fund management fees	–	–	14,748,434	14,522,586	14,748,434	14,522,586
Performance and transaction fees	91,358	–	180,852	322,507	272,210	322,507
Asset, leasing and project management fees	–	–	743,660	268,157	743,660	268,157
Registry and other income	–	–	2,192,006	2,289,288	2,192,006	2,289,288
Distribution income	2,285,171	7,075,276	5,625,951	909,066	7,911,122	7,984,342

(i) The Company transferred a total of 37,342,816 units in APN Industria REIT, APN Convenience Retail REIT, APN Asian REIT Fund and APN Global Income REIT Fund amounting to $112,071,571, together with novating an external borrowing of $6,003,500 that is secured over the investment in APN Industria REIT, as part of the Stapling and received $2,594,040 for the transfer of 743,278 units in APN Convenience Retail REIT, to its subsidiaries.

(ii) The loan receivable from its subsidiaries is secured against the assets of the entity and has a weighted average effective interest rate of 1.74% (2019: 7.20%).

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

	Parent		Subsidiaries / NCI		Total	
	2020 $	2019 $	2020 $	2019 $	2020 $	2019 $
Other related parties						
Trade receivables	12,901	212,151	1,752,011	1,799,352	1,764,913	2,011,503

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. No expense has been recognised in the financial year for expected credit loss in respect of the amounts owed by related parties.

Investments

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

	2020			2019		
	Units No.	Fair value $	Distribution received/ receivable $	Units No.	Fair value $	Distribution received/ receivable $
APN AREIT Fund	33,564	42,629	2,026	17,728	31,184	1,205
APN Asian REIT Fund	801,841	1,307,884	82,525	843,261	1,645,371	87,867
APN AREIT PIE Fund	–	–	–	–	–	198
APN Global REIT Income Fund (previously known as APN Asia Pacific REIT Fund)	1,215,384	831,809	6,902	9,161	100	–
APN Industria REIT	28,727,712	67,797,400	4,962,762	28,726,235	83,018,819	4,651,197
APN Convenience Retail REIT	10,680,064	36,312,218	2,156,753	9,631,005	30,048,736	2,012,198
APN Coburg North Retail Fund	479	479	32	479	479	33
APN Steller Development Fund	–	–	100,458	2,750,000	–	962,500
APN Development Fund No. 2	2,649,226	1,240,103	–	2,553,988	1,321,306	–
APN Nowra Property Fund	18,338	20,447	1,464	18,338	18,767	92,085
APN Regional Property Fund	4,942,915	6,945,784	598,203	8,148,128	11,375,602	177,059

33. Remuneration of auditors

	2020 $	2019 $
Audit or review of the financial report:		
Group	94,053	82,053
Subsidiaries and joint operations	76,595	60,715
Statutory assurance services required by legislation to be provided by the auditor	24,600	12,130
Other services:		
Tax consulting services(ii)	196,900	395,135
Other consulting services	34,650	–
Other services(i)	–	11,038
	426,798	561,071

(i) Other services include fees in relation to the audit and compliance audit provided to funds that have been incurred by the Group.
(ii) The tax consulting services in 2019 and 2020 relates to non-recurring tax work on the stapling of the Group.

The auditor of the Group is Deloitte Touche Tohmatsu.

34. Parent entity information

	Company	
	2020 $'000	2019 $'000
Financial position		
Current assets	8,645	16,678
Non-current assets	124,802	146,359
Total assets	133,447	163,037
Current liabilities	43,272	32,321
Non-current liabilities	7,949	15,078
Total liabilities	51,221	47,399
Issued capital	102,623	122,654
Retained loss	(24,774)	(12,287)
Equity compensation reserve	4,377	5,271
Total equity	82,226	115,638
Financial performance for the year		
Profit/(Loss) for the year	1,711	12,123
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	1,711	12,123

Guarantees, contingent liabilities and contractual commitments

As at the end of the reporting period, the Company had provided no financial guarantees in relation to liabilities of its subsidiaries and no contingent liabilities that were required to be disclosed (2019: nil).

As at the end of the reporting year, the Company had no contractual commitments outstanding (2019: none).

Parent entity financial information

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

35. Subsequent events

Subsequent to year end, APN has accepted offers to acquire a further $1,161,000 of its investment in APN Regional Property Fund at $1.43 per unit from new and existing investors.

The COVID-19 pandemic has created unprecedented uncertainty. The Directors have assessed the events subsequent to year end up to the date of signing these financial statements and determined that no adjustments or additional disclosures are required. Actual economic events and conditions in the future may materially differ from those estimated by the Group at the reporting date. In the event that future COVID-19 impacts are more severe or prolonged than anticipated, the future fair value of the investments held and future management fees earned may be adversely impacted.

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.

36. 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. New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 16 Leases and related amending standards
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
- AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements
- Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments

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

Impact of the application of AASB 16

Recognition and measurement of lease:

The Group has applied AASB 16 Lease for the first time. AASB 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. The Group has applied AASB 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under AASB 117; which:

- Requires the Group to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application;
- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows; and
- Financial impact of initial application of AASB 16;
  - The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 4.80%; and
  - The following table shows the operating lease commitments disclosed applying AASB 117 at 1 July 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	$'000
Impact on retained earnings as at 1 July 2019	
Operating lease commitments at 30 June 2019	2,972
Effect of discounting the above amounts	(353)
Present value of the lease payments due in periods that are included in the lease term and not previously included in operating lease commitments	2,619
Lease liabilities recognised at 1 July 2019	2,619

The Group has recognised $2,619,000 of right-of-use assets and $2,619,000 of lease liabilities upon transition to AASB16. Straight-line lease liabilities and unamortised rent incentives, adjusted for deferred tax, as at 1 July 2019 totalling $477,000 was adjusted to opening retained earnings at this date. It also resulted in a decrease in other expenses of $534,000 and increase in depreciation of $511,000 and interest expense of $117,000. With effect from 1 July 2019, the Group's new accounting policies in respect to the recognition and measurement of leases are disclosed in Note 16.

Standards and Interpretations in issue not yet adopted

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

- AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

SUMMARY OF SHAREHOLDERS

Twenty largest holders of quoted equity securities as at 3 August 2020

Rank	Name	No. of fully paid ordinary shares	%
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	59,115,952	17.92
2	HOLUS NOMINEES PTY LIMITED	45,798,688	13.89
3	LAUREN INVESTMENTS PTY LTD	32,751,312	9.93
4	MELBOURNE LIGHT PTY LTD	25,920,004	7.86
5	CS THIRD NOMINEES PTY LIMITED	15,600,000	4.73
6	APN FUNDS MANAGEMENT LIMITED	12,046,111	3.65
7	CITICORP NOMINEES PTY LIMITED	11,361,447	3.44
8	APN FUNDS MANAGEMENT LIMITED	7,500,000	2.27
9	HOLVIA INVESTMENTS PTY LTD	7,000,000	2.12
10	RYLELAGE PTY LTD	6,131,896	1.86
11	NATIONAL NOMINEES LIMITED	5,051,417	1.53
12	MR STEPHEN CRAIG JERMYN	5,000,000	1.52
13	THE TRUST COMPANY (AUSTRALIA) LIMITED	4,029,793	1.22
14	APN PROPERTY GROUP NOMINEES PTY LIMITED	3,900,001	1.18
15	STRATEGIC VALUE PTY LTD	3,000,000	0.91
16	VICTORIA SQUARE PTY LTD	2,955,627	0.90
17	HOLVIA INVESTMENTS PTY LTD	2,576,309	0.78
18	REGION HALL PTY LTD	2,442,341	0.74
19	MR JOHN EDWARD MYTTON BARNES	2,339,016	0.71
20	HOLUS NOMINEES PTY LTD	2,050,000	0.62
Total		256,569,914	77.79

Distribution of holders of equity securities as at 3 August 2020

Range	Securities	No. of holders	%
100,001 and Over	301,597,514	173	91.45
10,001 to 100,000	25,413,515	697	7.71
5,001 to 10,000	1,692,387	209	0.51
1,001 to 5,000	1,052,683	375	0.32
1 to 1,000	49,629	151	0.02
Total	329,805,728	1,605	100.00
Unmarketable Parcels	0	0	0.00

Substantial holder notices as at 3 August 2020

Name	Date of Notice (ASX)	Number of Securities	%
Melbourne Light Pty Ltd & Victoria Square Pty Ltd	1 June 2015	28,875,631	9.56
Holus Nominees Pty Limited[1]	21 October 2015	55,106,941	18.24
Lauren Investments Pty Limited[1]	21 October 15	20,632,650	6.83
Clime Investment Management Ltd / Clime Asset Management Pty Ltd / CBG Asset Management Ltd	5 February 2020	16,860,081	5.30
Phoenix Portfolios Pty Limited	27 February 2020	22,885,057	7.20

1 Holus Nominees and Lauren Investments are associates of Mr Christopher Aylward. Combined holding is 81,050,00 (24.58%)

On-market buy-back

There was an employee share scheme buy-back of 25,000 securities during the period.

APN Property Group

APN Property Group Limited
ACN 109 846 068
APD Trust
ARSN 629 330 007

Responsible Entity

APN RE Limited
ACN 627 612 202 AFSL No 510685

Company secretary

Chantal Churchill

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