

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31
December 2008

Directors' report

The directors of APN Property Group Limited ("APD") submit herewith the financial report for the six months ended 31 December 2008.

The names of the directors of the company during or since the end of the half-year are:

Executive

Clive Appleton

Christopher Aylward

David Blight, appointed 24 November 2008

Howard Brenchley

Non executive

Michael Butler (*Independent*)

Andrew Cruickshank

John Harvey (*Independent Chairman*)

Review of operations

APD has recorded a consolidated net profit after tax of \$1.3 million for the six months ended 31 December 2008, a decrease of 87% compared to the \$10.0 million reported for the same period last year.

The result is a direct reflection of the current economic climate and the current state of the real estate funds management industry. Key aspects of the results are as follows: (all figures quoted are before tax):

- Fund Management Fees – Down 28% to \$11.0 million

Funds under management declined to \$3.3 billion at balance date, compared with \$3.9 billion at 30 June 2008 (and \$4.7 billion for the prior comparative period). As the vast majority of APD's income is derived from the value of FUM, revenues have been particularly affected.

During the period, APD took the decision to close its unlisted managed funds to applications and redemptions. This action was in direct response to a sharp decline in the AREIT sector and the Australian Government's initiative to guarantee certain bank deposits. It is expected that these funds will reopen and/or restructure through the course of 2009 as greater clarity is provided on the market and asset pricing.

In addition, the value of underlying assets held by the funds managed by APD has continued to decline. The carrying values of all assets in the managed funds have been adjusted to reflect market values at December 2008.

- Transaction Fee Income – Down 43% to \$1.1 million

In addition to fund and asset management fee income, APD also earns transaction fees, for the provision of acquisitions, sales and debt arrangement services. In the current reporting period, there have been only minimal transactions and hence limited "one off" fees earned.

- Project Management Fee Income – Up 165% to \$2.2 million

APD has continued to progress the development projects currently underway in its two development funds. During the period several projects generated project management fees in excess of \$2 million as milestones were reached and services rendered.

- Investment Income – Down 88% to \$0.01 million

APD holds investments in some of its managed funds. Reduced distributions have affected this revenue stream significantly.

- Investments in APD Managed Funds - \$5.0 million write down

The carrying values of APD's investments in its managed funds have been adjusted at balance date to reflect their current market value. Two investments in particular, the listed APN European Retail Property Group and the unlisted APN Euro Fund contributed significantly to a write down for the period of \$5.0 million.

- Foreign Currency gain - \$1.5 million

APD has benefited from the weaker AUD as fees from its European activities are denominated in Euros.

- Overheads – Down 5% to \$8.8 million

APD moved quickly and decisively to reduce overheads as it prepared itself for the current economic downturn. Overheads were down 5% compared with the previous corresponding period.

Review of Balance Sheet

Determination of the financial results for the period included a rigorous assessment of the assets of the group for impairment. Intangible assets represent a considerable component of total assets and their value is based upon an assessment of the future cash flows expected to be generated by the business activity represented by the respective intangible asset.

The present uncertain climate demands careful scrutiny of cash flow forecasts and the applicable discount rate for determining present value. Directors have concluded that no impairment of these assets presently exists but will closely monitor this position in the future. Any adjustment for impairment will be made through the profit and loss account.

A description of each intangible asset is included in note 2 to the financial statements.

Significant Events During the Period

On 26 September 2008, APD acquired the remaining 50% interest in the asset management contracts of the APN Vienna Retail Fund and APN Poland Retail Fund. This was part of a final settlement with its former joint venture partner, UK Australasia Limited (UKA) in the management of all APD's European managed funds. Settled in two tranches (in FY08 and FY09) APD has acquired UKA's 50% interests in all entities for a total cost of \$13.6 million.

Outlook

As a boutique specialist real estate funds management business, APD's prospects for the future are inextricably linked to the prospects of the broader economy and real estate markets. With its Management platform strengthened, significant cash reserves, no debt and respected brand, APD is well positioned to benefit from the economic recovery.

With the recent launch of the new APN AREIT Fund which provides investors with the opportunity to participate in the recovery of the AREIT market, APD has shown its ability to listen to the demand from the market and design and implement products and strategies quickly and efficiently.

Further funds and strategies are being explored and will be brought to market as and when appropriate.

No dividend declared for the half year

Directors have determined that no dividend will be payable in respect of the first half earnings. Directors will review this position once there is more certainty around the full year results.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the half-year report.

Rounding off of amounts

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

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



David Blight
Managing Director

Melbourne, 27th day of February 2009

The Board of Directors
APN Property Group Limited
101 Collins St
MELBOURNE VIC 3000

Dear Sirs

INDEPENDENCE DECLARATION – APN PROPERTY GROUP LIMITED

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

As lead audit partner for the review of the financial statements of APN Property Group Limited for the half-year ended 31 December 2008, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 27 February 2009

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

We have reviewed the accompanying half-year financial report of APN Property Group Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement, statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 16.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the APN Property Group Limited's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of APN Property Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 27 February 2009

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

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



David Blight
Managing Director

Melbourne. 27th day of February 2009

**Condensed consolidated income statement
for the half-year ended 31 December 2008**

	Note	Consolidated	
		Half-year Ended 31 Dec 2008 \$'000	Half-year Ended 31 Dec 2007 \$'000
Revenue	4	15,848	26,701
Cost of sales		(1,375)	(3,058)
Gross profit		14,473	23,643
Financial income		429	672
Share of (losses)/profits of jointly controlled entities accounted for using the equity method		-	(29)
Administration expenses		(9,003)	(9,483)
Fair value loss on financial assets		(5,017)	-
Foreign currency exchange gains		1,539	218
Finance costs		(52)	(80)
Profit before tax		2,369	14,941
Income tax expense		(1,069)	(4,899)
Profit for the period		1,300	10,042
Attributable to:			
Equity holders of the parent		1,300	10,042
Earnings per share			
Basic (cents per share)		1.07	8.06
Diluted (cents per share)		1.05	7.75

Notes to the financial statements are included on pages 12 to 16.

**Condensed consolidated balance sheet
as at 31 December 2008**

		Consolidated	
		31 December 2008	30 June 2008
Note		\$'000	\$'000
Current assets			
	Cash and cash equivalents	11,808	12,558
	Trade and other receivables	13,906	18,192
	Other financial assets	8,419	12,892
	Other assets	499	588
	Total current assets	34,632	44,230
Non-current assets			
	Property, plant and equipment	386	477
	Goodwill	13,503	13,503
	Other intangibles	17,392	16,587
	Other receivables	3,101	-
	Deferred tax assets	3,259	2,110
	Total non-current assets	37,641	32,677
	Total assets	72,273	76,907
Current liabilities			
	Trade and other payables	3,696	8,947
	Borrowings	451	374
	Current tax payables	2,808	777
	Provisions	344	471
	Total current liabilities	7,299	10,569
Non-current liabilities			
	Provisions	155	114
	Other liabilities	377	318
	Total non-current liabilities	532	432
	Total liabilities	7,831	11,001
	Net assets	64,442	65,906
Equity			
	Issued capital	52,207	52,190
	Reserves	1,748	519
	Retained earnings	10,487	13,197
	Total equity	64,442	65,906

Notes to the financial statements are included on pages 12 to 16.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2008**

	Share capital \$'000	Retained earnings \$'000	Equity-settled employee benefits reserve \$'000	Investment revaluation reserve \$'000	Foreign currency translation reserve \$'000	Attributable to equity holders of the parent \$'000
Balance at 1 Jul 2007	50,636	16,123	341	-	(67)	67,033
Gain/(loss) on available-for-sale investments	-	-	-	(1,074)	-	(1,074)
Related income tax	-	-	-	322	-	322
Translation of foreign subsidiary company	-	-	-	-	(348)	(348)
Net income recognised directly in equity	-	-	-	(752)	(348)	(1,100)
Profit for the period	-	10,042	-	-	-	10,042
Total recognised income and expense	-	10,042	-	(752)	(348)	8,942
Payment of dividends	-	(7,110)	-	-	-	(7,110)
Issue of shares under share option plan	202	-	-	-	-	202
Recognition of share-based payments	-	-	1,104	-	-	1,104
Balance at 31 Dec 2007	50,838	19,055	1,445	(752)	(415)	70,171
Balance at 1 Jul 2008	52,190	13,197	1,497	-	(978)	65,906
Gain/(loss) on available-for-sale investments	-	-	-	-	-	-
Related income tax	-	-	-	-	-	-
Translation of foreign subsidiary company	-	-	-	-	175	175
Net income recognised directly in equity	-	-	-	-	175	175
Profit for the period	-	1,300	-	-	-	1,300
Total recognised income and expense	-	1,300	-	-	175	1,475
Payment of dividends	-	(4,010)	-	-	-	(4,010)
Issue of shares under share option plan	17	-	-	-	-	17
Recognition of share-based payments	-	-	1,054	-	-	1,054
Balance at 31 Dec 2008	52,207	10,487	2,551	-	(803)	64,442

Notes to the financial statements are included on pages 12 to 16.

**Condensed consolidated cash flow statement
for the half-year ended 31 December 2008**

	Consolidated	
	Half-year Ended 31 Dec 2008 \$'000	Half-year Ended 31 Dec 2007 \$'000
Note		
Cash flows from operating activities		
Receipts from customers	19,341	22,694
Payments to suppliers and employees	(14,995)	(10,577)
Income tax paid	(330)	(3,848)
Interest and other costs of finance paid	(52)	(80)
Interest received	292	672
Distribution received	69	608
Net cash provided by/ (used in) operating activities	4,325	9,469
Cash flows from investing activities		
Payment for investment	(659)	-
Proceeds on sale of investment	151	3,014
Payment for property, plant and equipment	(80)	(85)
Payment for intangible asset	(770)	(1,971)
Payment for business combination	-	(17,156)
Net cash provided by / (used in) investing activities	(1,358)	(16,198)
Cash flows from financing activities		
Proceeds from issue of shares	17	202
(Repayment) / proceeds from related party borrowings	-	(24)
Dividends paid	(4,010)	(7,110)
Net cash provided by / (used in) financing activities	(3,993)	(6,932)
Net (decrease)/ increase in cash and cash equivalents	(1,026)	(13,661)
Net effect of foreign exchange translations	276	(348)
Cash and cash equivalents at the beginning of the period	12,558	21,676
Cash and cash equivalents at the end of the period	11,808	7,667

Notes to the financial statements are included on pages 12 to 16.

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 30 June 2008.

2. Critical accounting judgements and key sources of uncertainty

The application of the accounting policies requires, on occasion, the exercise of estimation and judgement. Actual results may subsequently differ from these estimates.

There were a number of critical judgements made in the preparation of these financial statements. They include:

Intangible Assets

The balance sheet includes significant values for intangible assets. At each balance date these are tested for impairment using a method that assesses the future cash flows expected to be generated by these cash generating units, discounted at an appropriate discount rate to reflect present value. The following intangible assets were carefully assessed and it was determined that they are not presently impaired.

▪ Goodwill

Goodwill of \$13.5 million resulted from the reconstruction of the group prior to its listing in 2005. The value reflects the development management and development investment activities of the group, currently undertaken through its managed Development Fund 1 and Development Fund 2. Considerable uncertainty exists about the short and medium term prospects for maintaining a regular cash flow from these activities. Doubts about the level of interest for new investment, and the availability of funding for new loans required careful assessment of likely future cash flows and an appropriate discount rate. In assessing whether this goodwill is impaired, directors have made a not unreasonable assumption that present market conditions are atypical and that over a ten year period there will be a reversion to more average conditions. Shareholders should be aware that if present investment and banking markets persisted then the impairment of this asset would be substantial.

▪ Management Rights (note 6)

APD acquired the 50% interest in the asset management contracts of the listed APN European Retail Property Group and two unlisted property funds held by its former joint venture partner, UK Australasia Limited (UKA). Settled in two tranches (in FY08 and FY09) APD acquired these interests for a total cost of \$13.6 million. The management fees resulting from this acquisition are based on the asset values of the funds managed. Declining property values have led to a considerable reduction in fees earned and estimates for future fees have been conservatively determined. Any further reductions in asset values may require reassessment of cash flow

2. Critical accounting judgements and key sources of uncertainty (cont'd)

- **Management Rights (note 6) (cont'd)**

estimates in the future. Asset sales by any of these funds will certainly change cash flow estimates and may result in future impairment write downs. Shareholders should be aware that several of the funds that are the subject of these management rights are presently in breach of their banking covenants. A potential consequence of their breaches may be that the relevant banks require sale of the underlying assets of the funds. In such circumstances it is likely this asset would be substantially impaired.

- **IT Software (note 6)**

APD has presently incurred expenditure of \$3.6 million in developing an IT platform to facilitate the asset management and accounting services necessary for its European managed funds. All costs are capitalised during development and in accordance with the accounting policy, will be written off over seven years. Any reduction in the size of European business activities may result in future impairment write downs. Shareholders should be aware that several of these European funds are presently in breach of their banking covenants. A potential consequence of these breaches may be that the relevant banks require sale of the underlying assets of the funds. In such circumstances it is likely this asset would be substantially impaired.

Other Assets

All other assets have been adjusted, where necessary, to reflect fair value at balance date. This is an appropriate measure of their value at that date, though for some assets fair value is changing regularly in the currently volatile market. These are:

- **Receivables**

Principally fund or asset management fees, recovery of receivables is dependent on the financial capacity of the managed funds to pay. An assessment of recoverability has been undertaken for all receivables and where reasonable doubt exists, they have been written off or a provision has been raised. In some instances however, it is expected that receivables may take considerable periods of time to recover. Receivables totalling \$3.1 million are expected to take longer than 12 months to recover and have been classified as non current assets. A significant portion of these non current receivables are owed by European funds that are presently in breach of their banking covenants. However, full recovery is expected of these receivables as these funds are in a positive net worth position.

- **Investments**

APD invests in a number of the funds that it manages. These financial statements record a write down in the value of these investments to fair value at balance date. In the current uncertain market, these values are changing frequently and further adjustments are likely to be required in subsequent financial periods. Shareholders should be aware that these investments are geared investments in illiquid real estate assets, and in some instances the funds are in breach of their banking covenants. The value of these investments can move rapidly in either direction.

- **Deferred Tax Assets**

Where APD has written down the value of its investments to below cost, a future tax benefit is created, which has value provided APD generates adequate future taxable income to benefit. Directors have assumed that APD will generate such future taxable income, but there is some significant uncertainty regarding the banking facilities in several of the funds that APD manages which may have the potential to negatively affect future taxable profits. In the absence of adequate future taxable profits this asset would be potentially impaired.

3. Segment information

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

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

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

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

Business segments

The consolidated entity comprises of the provision of funds management services, based on the consolidated entity's management reporting system.

The following is an analysis of the revenue and results for the period, analysed by business segment, APN Property Group Limited's primary basis of segmentation.

	Segment revenue		Segment profit	
	Half-year ended		Half-year ended	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
On-going management fee - Funds Management	14,470	17,649	7,784	7,505
Transaction fee – Funds Management	1,118	8,444	1,082	7,609
Total of all segments	15,588	26,093	8,866	15,114
Unallocated*	260	608	(6,497)	(144)
	15,848	26,701	2,369	14,970
Share of results of joint venture entities accounted for using the equity method			–	(29)
Profit before income tax expense			2,369	14,941
Income tax expense			(1,069)	(4,899)
Profit for the period			1,300	10,042

* The unallocated segment profit includes the write down of investments of \$5.0 million during the period to 31 December 2008 (31 December 2007: \$nil).

4. Revenue

Half-year ended

Revenue

On-going management fee - Funds Management
Transaction fee – Funds Management
Sundry income
Distribution income

Consolidated	
31 Dec 2008	31 Dec 2007
\$'000	\$'000
14,470	17,623
1,118	1,945
188	6,525
72	608
15,848	26,701

5. Dividends

Half-year ended

Recognised amounts

Fully paid ordinary shares
Final dividend

Unrecognised amounts

Fully paid ordinary shares
Interim dividend

31 Dec 2008		31 Dec 2007	
Cents per share	Total \$'000	Cents per share	Total \$'000
3.0	4,010	5.5	7,110
-	-	4.5	5,860

6. Other Intangibles

Half-year ended

Intangible Assets

Management rights acquired
I T software – Construction in progress at cost
I T software – Amortised cost

Consolidated	
31 Dec 2008	31 Dec 2007
\$'000	\$'000
13,596	13,423
3,625	2,932
171	232
17,392	16,587

7. Issuances, repurchases and repayments of equity securities

Balance at 1 Jul 2008

Share options exercised by employees
Share options repurchased by the company
Share options issued under the APN Property Group Employee Share Purchase Plan

Balance at 31 Dec 2008

Consolidated	
No. of shares '000	\$'000
133,664	52,190
-	17
(1,577)	-
10,000	-
142,087	52,207

7. Issuances, repurchases and repayments of equity securities (cont'd)

	Consolidated	
	No. of shares '000	\$'000
Balance at 1 Jul 2007	129,268	50,636
Share options exercised by employees	-	202
Share options issued under the APN Property Group Employee Share Purchase Plan	955	-
Balance at 31 Dec 2007	130,223	50,838

On 21 November 2008, 10,000,000 share options were issued to David Blight under the APN Property Group Employee Share Purchase Plan. These share options had a fair value at grant date of \$0.0625 per share option. In addition to these share options, up to 6,000,000 performance share options were granted but not issued at 21 August 2008. These share options had a fair value of \$0.3155 per share option.

During the half-year reporting period \$17,000 (2007: \$202,000) of share options issued under the Plan have been exercised as a result of dividend payments.

At 31 December 2008, included in fully paid ordinary shares of 142,087,287 (2007: 130,223,233) are 20,223,001 (2007: 12,440,001) treasury shares relating to the employee share option plan.

8. Acquisition of management rights

On 26 September 2008, the Group acquired the remaining 50% of the issued share capital of APN/UKA Management No.2 Limited ("IOM2") for cash consideration of \$173,000 to bring its ownership to 100%. IOM2's principal activity is property consultancy and management. The acquisition of the entity is not regarded as a business combination as no business has been identified. The transaction has been done in order to acquire the management rights of APN Vienna Retail Fund and APN Poland Retail Fund. Net assets of \$1,000 and management rights of \$172,000 have been acquired.

9. Subsequent events

APN Property Group has invested in units of the APN European Retail Property Group (AEZ) which is listed on the ASX. At the close of business on 26th February 2009, the unit price of AEZ has dropped from \$0.064 to \$0.023, a reduction of 64% since 31 December 2008. This reduction would create a fair value adjustment to the value of the group's investment in AEZ of \$190,000 (pre-tax). The financial statements have not been adjusted for this event.

Other than the matter advised above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2008, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.