APN Property Group Limited
ABN 30 109 846 068

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29 August 2011

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam,

APN Property Group Limited (ASX code: APD)

Financial results for the year ended 30 June 2011

The financial year ended June 2011 was another challenging year for the industry and for APN Property Group ('APN' or 'the Group'). We continued to focus on stabilising the business and positioning APN for new growth opportunities.

Funds under Management (FuM), which had been declining since 2007, showed indications of stabilising during the year as inflows to the strongly performing APN AREIT Fund partially compensated for moderating declines in other areas.

As Group revenues are strongly linked to the value of FuM, FY11 delivered a result that was similar to the previous financial year. Fees earned during the year along with direct expenses and significantly, overheads, were similar to those recorded last year.

APN recorded a statutory loss after tax of $5.3 million for the financial year ended 30 June 2011. This reflects the write off, during the year, of most of the remaining intangible items previously recorded as assets of the Group.

Underlying profit from operations was $3.0 million, an increase of 50% compared with the previous financial year. FuM at 30 June 2011 was $2.3 billion ($2.5 billion at 30 June 2010). The result includes a number of one-off items, including income from the successful outcome of a negligence claim against one of the Group's advisers ($0.9 million after tax).

Income Statement Summary	2011 $ million	2010 $ million	Change %
Underlying Profit Before Tax (from Operations)	4.3	3.1	
Tax (expense)/credit	(1.3)	(1.1)	
Underlying Profit After Tax (from Operations)	**3.0**	**2.0**	**50%**
(Loss)/Profit from non-operating activities before tax	(7.8)	(8.5)	
Tax (expense)/credit	(0.5)	1.3	
(Loss)/Profit from non-operating activities After Tax	**(8.3)**	**(7.2)**	**(15%)**
Statutory Profit / (Loss) Before Tax	(3.5)	(5.4)	
Tax (expense)/credit	(1.8)	0.2	
Statutory (Loss) After Tax	**(5.3)**	**(5.2)**	**(2%)**

Significant factors in this result (all figures quoted are before tax):

- *Funds under management – down 10% to $2.3 billion*

  The values of underlying property assets continued to decline during the year, although the rate of decline has diminished. In Europe, properties held by the European Retail Property Group (AEZ) are now valued at net realisable value in accordance with an agreement to sell the portfolio over the period to November 2012 (see further comment below). This was offset by fund net inflows of $94 million to the APN AREIT Fund during the year.

- *Fund management fees – down 4% to $15.7 million*

  As the majority of the Group's income is derived from the value of FuM, revenues are closely linked to market valuations of the fund's investments and property values of the direct property funds.

- *Registry fees / Accounting service fees income – steady at $2.3 million*

  Fees from peripheral fund management services remain reasonably constant from year to year.

- *Transaction fees / Performance fees income – $0.6 million (last year, nil)*

  An asset disposal fee of $0.3 million was received during the year, as a result of the sale and settlement of the property portfolio of the APN Retirement Properties Fund, which reached its natural termination date and has now been wound up.

  In addition, a performance fee of $0.3 million was earned as a result of the strong earnings performance of the ARA Asian Asset Income Fund during the year.

- *Project management fees income – down 35% to $0.7 million*

  The reduction in fees generated during the period reflects the limited progress on development opportunities. A number of projects have planning approval but are delayed due to pre-leasing and project finance constraints.

- *Investment income – steady at $0.1 million*

  APN holds investments in several of its managed funds. Distribution income remained steady during the year.

- *Sundry Income - $1.5 million (last year, nil)*

  This income includes the settlement proceeds from a negligence claim against one of the Group's advisers. Costs incurred by APN for which this claim is compensation, were recognised in previous financial years.

- *Net interest income – Down 30% to $0.9 million*

  APN's entitlement to interest income on loans and other receivables from managed funds has not been recognised in full this year, as there is uncertainty about its collection. While this uncertainty prevails, interest income will be recognised when payment is received.

- *Overheads – down 5% to $15.4 million*

  APN has kept overheads relatively constant during the year, following significant reductions in the prior years.

- *Impairment, fair value and other adjustments – $7.8 million write down (last year, $8.5 million write down)*

  APN has progressively written down the carrying value of intangible assets over the past three years. These assets were largely written down to nil at December 2010. In addition, all assets and liabilities have been assessed for impairment and adjusted to reflect expected realisable value at balance date.

Review of Balance Sheet

- *Net tangible assets - $31.3 million (last year $26.8 million)*
- *Cash balance - $15.4 million (last year $8.6 million)*
- *No debt*
- *Intangible assets written off*
- *Net Tangible Asset (NTA) – 19.6 cents per share*

Significant events throughout reporting period

- APN AREIT Fund

  The APN AREIT Fund attracted over $94 million in new funds during the year. At 30 June 2011, net funds invested since inception (January 2009) exceeded $150 million. In a very difficult market in which there has been a significant reluctance to invest new money into property investments, this is a considerable achievement.

  The fund has received strong support from financial advisers and investors and was highly rated by leading research houses. It has delivered exceptional investment performance since inception with total return at balance date of 17.05% pa compared to the S&P/ASX 200 AREIT index of 7.72% pa.

- APN Property for Income Fund and APN Property for Income Fund No. 2

  Withdrawals from the APN Property for Income funds have been suspended since October 2008. The Corporations Act limits redemptions in funds that do not meet minimum liquidity requirements.

  During the period, APN introduced a limited monthly withdrawal offer to investors via a Managed Redemption Offer (MRO). The MRO allows aggregate withdrawals up to a limit of 5% pa of the value of the funds, pro rated on a monthly basis. Redemption requests significantly exceeded the capped amount during the period and were scaled back on a pro rata basis.

  Concurrently, APN has sought ways to restore the imbalance between liquid and illiquid investments within the funds to enable the lifting of the suspension on redemptions. As the market values of listed real estate securities gradually recover and opportunities to sell unlisted securities at fair value increase, the prospects for restoring liquidity and re-opening the funds to normal redemption processes improves.

- APN Diversified Property Fund and APN Direct Property Fund

  In January 2011, APN formally terminated both funds and has commenced a progressive sell down of the assets and return of proceeds to investors. The funds have been technically illiquid since October 2008 and there has been little improvement in the proportion of liquid assets since this time. It was determined that the funds are unable to achieve their stated investment objectives and return to normal asset allocations over the foreseeable future. Accordingly, termination of the funds was considered the most equitable solution and in the best interests of unitholders as a whole.

- APN Retirement Properties Fund

  During the year APN completed the sale and settlement of all assets of the fund and the distribution of proceeds to investors. The fund was terminated in accordance with its constitution and was successful in meeting its original investment objectives, delivering an outstanding average annual yield in excess of 11.5% and some capital growth.

- APN Development Fund No. 2

  Following feedback from investors, APN determined that no new development projects will be undertaken by this fund. Although capital was committed for further developments as they were identified, this fund will now proceed with the two projects to which it has already committed: 150 Collins Street, Melbourne; and Industry Village in Port Melbourne. Any new development opportunities will now be considered for new APN funds.

- APN European Retail Property Group (AEZ)

  The listed AEZ fund invests in European retail property and has been hit hard by the global financial crisis. Property values have fallen progressively over the past four years, leading to financial covenant breaches in most of the finance facilities within the fund.

  In March 2011, APN was party to an agreement between the fund and its principal lender, The Royal Bank of Scotland plc (RBS). The parties agreed to an orderly sale of the assets of the fund over a scheduled 20 month period to 30 November 2012. APN agreed to defer and subordinate its entitlement to base management fees in excess of its costs of managing the fund. APN also agreed to defer part of its asset disposal fees.

If the asset sale is completed as contemplated by this agreement, it is likely that the fund will be terminated and APN will cease earning fees from this fund.

- ARA Asian Asset Income Fund (AAAIF)

  APN completed the acquisition of ARA Strategic Capital I Pte Ltd (subsequently renamed APN Funds Management (Asia) Pte Ltd) in August 2010. This entity is the fund manager of the ARA Asian Asset Income Fund; an open-ended wholesale fund that primarily invests in the listed property and infrastructure sectors in the Asia Pacific region. The primary objective of the fund is to earn a higher level of income with lower volatility than would normally be expected from investing solely in Asian Real Estate Investment Trusts (REITs).

- Placement of shares to a new cornerstone investor, ARA Asset Management Limited.

  As part of the package of transactions that included the acquisition of the management of ARA Asian Asset Income Fund, APN established a new long term strategic partnership with ARA Asset Management Limited (ARA), a leading Asian real estate funds management company. This arrangement included the issue of approximately 21 million new shares in APN, representing approximately 15% of its issued capital (approximately 13% after issue), at 22 cents per share to a related entity of ARA. The issue raised $4.6 million and will assist in the funding of new business opportunities.

- APN Kilcor Real Estate Development joint venture

  During the year, APN established an alliance with Kilcor Group; a Queensland based private real estate developer, with a strong track record in redeveloping suburban and sub-regional retail property.

  The APN Kilcor joint venture intends to acquire, develop and manage mid-size Australian shopping centres on behalf of institutional investors.

Significant events post 30 June 2011

- ING Real Estate Healthcare Fund Acquisition

  On 10 August 2011, investors in the listed ING Real Estate Healthcare fund (IHF), voted overwhelmingly to appoint subsidiary company, APN Funds Management Limited as Responsible Entity of the fund. Acquisition of the management of IHF, which was settled on 12 August 2011, adds $199 million to Funds under Management with the prospect of strong growth over time. Healthcare is one of the largest and fastest growing industries in the world and IHF is well placed to capitalise on the growth opportunities in Australia.

- New Share Placements

  Consideration for the acquisition of 67.5% of the IHF management business (the balance is retained by IHF senior managers, Miles Wentworth and Chris Adams) included cash payments of $3.7 million and 1.8 million new APN shares representing value of $0.4 million (at $0.20 per share). In addition, APN issued 0.5 million new shares to each of Miles Wentworth and Chris Adams as a sign-on incentive. The shares were issued on 12 August 2011.

- APN AREIT Fund extends distribution reach

  The APN AREIT Fund was recently placed on the NAB/MLC approved investments lists providing more than 2000 investment advisors with access to the fund for recommendation to their clients. This cements the role of the fund as a highly favoured property investment product within the major institutional distribution channels of the Banking and Wealth Management sector in Australia. The Fund was also included on the approved investments list of the Westpac/BT Financial Group in 2010.

Dividend

No final dividend will be paid this year.

An interim dividend of 1.25 cents per share was paid in March 2011. This represents a payout ratio of approximately 66% of underlying profit after tax from operations for the year.

Outlook

The Group continues to ‘weather the storm’ initiated by the global financial crisis (GFC) and followed by sovereign debt concerns and weakened economies with restricted capacity to provide further stimulus. FY11 was another challenging year in which efforts were directed towards stabilising the existing business and preparing for new growth opportunities.

In June 2007, APN recorded Funds under Management of $4.8 billion and annual revenue well in excess of $40 million. The substantial decline in investment values and hence Funds under Management has seen revenues decline by over 50% in the period since. The resources required to manage these funds however, does not diminish proportionately. Indeed experience indicates that in difficult circumstances, the contrary applies.

APN recognised early on in the global financial crisis, the likelihood of a sharp decline in property markets and a protracted recovery. The Group responded by aggressively reviewing overhead expenses and has continued this practice through the period. Early action in reducing overhead expenses ensured that APN was able to record an underlying profit from operating activities in every year since, albeit relatively modest in recent years.

Significantly though, the Group has largely retained its management platform. This has not only been important to ensure that investment performance and service standards are maintained, but also to ensure new business activities will be well supported. The existing platform has capacity to manage significant earnings growth in existing businesses where the benefits of scale apply.

The Group remains in good financial health. Although profits have declined, the Group is financially sound with cash resources at balance date of approximately $15.4 million and significantly, no debt. Intangible assets have been written off and the balance sheet records net tangible assets of $31.2 million or 19.5 cents per share.

Opportunities for growth exist through the organic growth of existing products (continued growth of the APN AREIT Fund and market recovery in FuM values across other funds), establishing new products for local and international investors as well as pursuing corporate acquisitions.

The Directors continue to assess opportunities for growth and remain confident that this will ultimately deliver sustainable long term value to APN shareholders.

Earnings Outlook

There is considerable uncertainty about earnings outlook for the financial year ended June 2012. Factors that are likely to have a significant influence on the results include:

- Sale and timing of sale of the assets of APN European Retail Property Group;
- Sale and timing of sale of assets of funds formally terminated;
- Changes in market values of fund investments. This determines value of funds under management and hence, revenues;
- Growth from emerging opportunities – ING Real Estate Healthcare Fund, continuing fund inflows to APN AREIT Fund, ARA Asian Asset Income Fund;
- Growth from opportunities not yet identified; and
- An uncertain market climate which continues to prevail.

For these reasons, the Directors consider it prudent to refrain from providing earnings guidance for FY12 at this point in time.

Enquiries

For further information, please contact:

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Yours sincerely

John Freemantle
Company Secretary

About APN Property Group

APN Property Group is one of Australia's leading real estate investment managers, managing a suite of open and closed-end real estate funds that invest in public and private real estate investment trusts and direct real estate.

Listed on the ASX (Code: APD), APN has $2.3 billion in funds under management as at 30 June 2011 and more than 70 employees based in Melbourne (Head Office), Singapore and London. Collectively, APN manages investments on behalf of more than 10,000 direct clients and well over 100,000 indirect clients through investment platforms.

Further information www.apngroup.com.au

APN | Property Group

APN Property Group Limited and its controlled entities ("APD")
Appendix 4E - Preliminary final report for the year ended 30 June 2011

Results for announcement to the market

	Financial year ended 30 June 2011 $'000	Financial year ended 30 June 2010 $'000	Movement $'000	Movement %
Revenue from ordinary activities	20,970	19,987	983	5%
Loss from ordinary activities after tax attributable to members	(5,297)	(5,224)	(73)	(1%)
Net loss attributable to members	(5,297)	(5,224)	(73)	(1%)
Basic earnings per share	(3.88) cents	(4.48) cents		
Diluted earnings per share	(3.88) cents	(4.48) cents		
Net tangible assets backing	19.59 cents	19.18 cents		

Dividend

Ordinary Shares	Amount per security	Franked amount
Final Dividend	Nil	N/A
Interim Dividends	1.25 cents	100%
Previous corresponding period	Nil	N/A

Payment of Final Dividend

Record date for determining entitlement	N/A
Payment date	N/A

Commentary on results

Please refer to the media release and investor presentation

Consolidated statement of comprehensive income for the year ended 30 June 2011

	2011 $'000	2010 $'000
Revenue	20,970	19,987
Cost of sales	(2,117)	(1,913)
Gross profit	18,853	18,074
Finance income	880	1,561
Administration expenses	(15,354)	(16,228)
Impairment, fair value adjustments and business acquisition costs	(7,821)	(8,537)
Finance costs	(24)	(338)
Loss before tax	(3,466)	(5,468)
Income tax (expense) / income	(1,831)	244
Loss for the year	(5,297)	(5,224)
Other comprehensive income		
Exchange differences on translating foreign operations	(410)	(753)
Gain on available-for-sale-investments taken to equity	34	–
Other comprehensive (loss)/income for the year, net of tax	(376)	(753)
Total comprehensive loss for the year	**(5,673)**	**(5,977)**
Loss attributable to:		
Equity holders of the parent	(5,297)	(5,224)
Total comprehensive loss attributable to:		
Equity holders of the parent	(5,673)	(5,977)
Earnings per share		
Basic (cents per share)	(3.88)	(4.48)
Diluted (cents per share)	(3.88)	(4.48)

Consolidated statement of financial position
at 30 June 2011

	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	15,415	8,633
Trade and other receivables	6,318	6,403
Current tax assets	358	–
Other financial assets	8,614	8,697
Other asset	680	549
Total current assets	31,385	24,282
Non-current assets		
Other financial assets	225	–
Property, plant and equipment	352	399
Intangible assets	227	4,690
Deferred tax assets	6,094	7,945
Goodwill	–	2,513
Total non-current assets	6,898	15,547
Total assets	38,283	39,829
Current liabilities		
Trade and other payables	4,119	3,345
Current tax liabilities	–	925
Provisions	691	597
Total current liabilities	4,810	4,867
Non-current liabilities		
Trade and other payables	124	152
Provisions	1,265	278
Other liabilities	579	522
Total non-current liabilities	1,968	952
Total liabilities	6,778	5,819
Net assets	31,505	34,010
Equity		
Issued capital	56,867	52,210
Reserves	1,752	1,621
Retained earnings	(27,114)	(19,821)
Equity attributable to equity holders of the parent	31,505	34,010
Total equity	31,505	34,010

Consolidated statement of changes in equity
for the year ended 30 June 2011

	Fully paid ordinary shares $'000	Retained earnings $'000	Equity-settled employee benefits reserve $'000	Investment revaluation reserve $'000	Foreign currency translation reserve $'000	Total Attributable to equity holders of the parent $'000
Balance at 1 July 2009	52,207	(12,850)	2,835	–	(912)	41,280
Loss for the year	–	(5,224)	–	–	–	(5,224)
Other comprehensive income for the year	–	–	–	–	(753)	(753)
Total comprehensive income for the year	–	(5,224)	–	–	(753)	(5,977)
Payment of dividends	–	(1,747)	–	–	–	(1,747)
Share options exercised by employees	3	–	–	–	–	3
Recognition of share based payments	–	–	451	–	–	451
Balance at 30 June 2010	**52,210**	**(19,821)**	**3,286**	**–**	**(1,665)**	**34,010**
Loss for the year	–	(5,297)	–	–	–	(5,297)
Other comprehensive income for the year	–	–	–	–	(410)	(410)
Gain on available-for-sale investments	–	–	–	34	–	34
Total comprehensive income for the year	–	(5,297)	–	34	(410)	(5,673)
Payment of dividends	–	(1,996)	–	–	–	(1,996)
Issue of ordinary shares under employee incentive plan	79	–	(79)	–	–	–
Recognition of share based payments	–	–	586	–	–	586
Share options exercised by employees	3	–	–	–	–	3
Issue of shares	4,612	–	–	–	–	4,612
Transaction costs (net of deferred tax)	(37)	–	–	–	–	(37)
Balance at 30 June 2011	**56,867**	**(27,114)**	**3,793**	**34**	**(2,075)**	**31,505**

Consolidated statement of cash flows for the year ended 30 June 2011

	2011 $'000	2010 $'000
Cash flows from operating activities		
Receipts from customers	21,254	22,637
Payments to suppliers and employees	(15,128)	(18,059)
Interest received	695	900
Dividends and distribution received	85	76
Interest and other costs of finance paid	(24)	(338)
Income taxes paid	(1,248)	(3,248)
Net cash provided by/(used in) operating activities	5,634	1,968
Cash flows from investing activities		
Payment for investment securities	(548)	(1,040)
Payments for property, plant and equipment	(250)	(337)
Advance to related parties	(470)	(2,127)
Proceeds from sale of investments	612	–
Payment for business combination	(193)	–
Net cash (used in)/provided by investing activities	(849)	(3,504)
Cash flows from financing activities		
Proceeds from issues of equity securities	4,561	3
Dividends paid to equity holders of the parent	(1,996)	(1,747)
Net cash provided by/(used in) financing activities	2,565	(1,744)
Net increase/(decrease) in cash and cash equivalents	7,350	(3,280)
Net effect of foreign exchange translations	(568)	(1,412)
Cash and cash equivalents at the beginning of the financial year	8,633	13,325
Cash and cash equivalents at the end of the financial year	15,415	8,633

Notes to the consolidated financial statements

1. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

The Group has adopted the following Standards and Interpretations as listed below which only impacted on the Group's financial statements with respect to disclosure.

Standard
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' Amendments to AASB 107 'Statement of Cash Flows'

The following new and revised Standards and Interpretations have been adopted in the financial statements. Their adoption has not had any significant impact on the amounts reported in the financial statements but may affect the accounting for future transactions or arrangements.

Standard
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions'
AASB 2009-9 'Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters'
AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012

Notes to the consolidated financial statements

2. Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

There are no critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Key sources of estimation uncertainty

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

2.1 Impairment of goodwill and management rights

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

The carrying amount of goodwill at the balance sheet date was $Nil (2010: $2,513,000) and the carrying amount of management rights at the balance sheet date was $174,000 (2010: $4,636,000) after impairment losses of $2,513,000 (2010: $18,000) and $4,636,000 (2010: $2,048,000) respectively, were recognised during the current financial year.

Notes to the consolidated financial statements

3. Segment Information

3.1 AASB 8 Operating Segments

AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance for which discrete information is available.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is more specifically focused on the categories of product being provided to the different market segments. The principal categories of product type are Real Estate Securities funds, Direct Real Estate funds, Real Estate Private funds, European Real Estate funds and Asian Real Estate fund. Other operating segments that are being reported to the Group's chief operating decision maker are the Registry and Investment revenue.

3.2. Products from which reportable segments derive their revenue

The Group's reportable segments under AASB 8 are therefore as follows:

Reportable segments	Product type	Fund
▪ Real Estate Securities funds	Open ended properties securities funds	▪ APN AREIT Fund ▪ APN Property for Income Fund ▪ APN Property for Income Fund No. 2 ▪ APN International Property for Income Fund ▪ APN Direct Property Fund ▪ APN Diversified Property Fun
▪ Direct Real Estate funds	Fixed term Australian funds	▪ APN National Storage Property Trust ▪ APN Property Plus Portfolio ▪ APN Regional Property Fund ▪ APN Retirement Properties Fund
▪ Real Estate Private funds	Wholesale funds	▪ APN Development Fund No.1 ▪ APN Development Fund No.2
▪ European Real Estate funds	Listed property trust fund and fixed term European funds	▪ APN European Retail Property Group (AEZ) ▪ APN Poland Retail Fund ▪ APN Vienna Retail Fund ▪ APN Champion Retail Fund ▪ APN Euro Property Fund
▪ Asian Real Estate fund	Open ended offshore fund	▪ ARA Asian Asset Income Fund
▪ Registry	Providing registry services to funds	
▪ Investment revenue	Investment income received or receivables from co-investment in funds	

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

Notes to the consolidated financial statements

3. Segment Information (cont'd)

3.3. Segments revenues and results

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

	Segment revenue Year ended		Segment profit Year ended	
	30 June 2011 $'000	30 June 2010 $'000	30 June 2011 $'000	30 June 2010 $'000
Continuing operations				
Real estate securities funds	7,186	7,339	1,190	1,785
Direct real estate funds	2,797	1,831	2,174	1,203
Real estate private funds	2,435	2,823	369	564
European real estate funds	4,320	5,685	1,964	2,052
Asian real estate funds	555	–	(396)	–
Registry	2,260	2,226	1,577	1,471
Investment revenue	108	83	108	83
	19,661	19,987	6,986	7,158
Sundry income			1,309	–
Finance income			880	1,561
Central administration			(4,539)	(4,992)
Depreciation and amortisation			(257)	(320)
Finance costs			(24)	(338)
Profit before income tax expense			4,355	3,069
Income tax expense			(1,311)	(1,059)
Underlying profit after tax			3,044	2,010
Loss from impairment, fair value adjustments and business acquisition costs before tax			(7,821)	(8,537)
Income tax expense			(520)	1,303
Loss from impairment, fair value adjustments and business acquisition costs after tax			(8,341)	(7,234)
Statutory loss before tax			(3,466)	(5,468)
Income tax expense/(gain)			(1,831)	244
Loss for the year			(5,297)	(5,224)

The revenue reported above includes revenue generated from related parties of $19,661,000 (2010: $19,979,000) and revenue from external parties of $1,309,000 (2010: $8,000). This represents the analysis of the Group's revenue from its major products. Related parties transactions are disclosed in note 33. There were no intersegment sales during the period.

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

Notes to the consolidated financial statements

3. Segment Information (cont'd)

3.4. Segments assets and liabilities

Information on assets and liabilities for each reportable 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.

3.5. Other segment information

	Real estate securities funds $'000	Direct real estate funds $'000	Real estate private funds $'000	European real estate funds $'000	Asian real estate funds $'000	Registry $'000	Investment revenue $'000
2011							
Impairment of goodwill	–	–	2,513	–	–	–	–
Impairment of management rights	–	–	–	4,636	–	–	–
Doubtful debts allowance/(reversal)	–	–	–	(453)	–	21	–
2010							
Impairment of goodwill	–	–	18	–	–	–	–
Impairment of management rights	–	–	–	2,048	–	–	–
Doubtful debts allowance	–	–	–	(51)	–	25	–

3.6. Geographical information

The Group operates its funds management business primarily in three principal geographical areas – Australia (country of domicile), Europe and Asia.

The Group's revenue from external customers and information about its non-current assets* by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Australia	14,786	14,302	308	2,917
Europe	4,320	5,685	22	4,685
Asia	555	–	249	–
	19,661	19,987	579	7,602

* Non-current assets excluding financial instruments, deferred tax assets, post-employment benefit assets, and assets arising from insurance contracts.

3.7. Information about major customers

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

Revenue from major customers	2011 $'000	2010 $'000
Customer A included in revenue from Real estate securities funds and registry segments	5,496	5,923
Customer B included in revenue from Real estate securities funds and registry segments	2,259	2,503
Customer C included in revenue from European real estate funds	3,322	4,579

Notes to the consolidated financial statements

4. Revenue

An analysis of the Group's revenue for the year is as follows:

	2011 $'000	2010 $'000
On-going management fee – Funds management	18,750	19,900
Transaction fee – Funds management	360	–
Performance fee –Funds management	287	–
Sundry income (i)	1,465	4
	20,862	19,904
Distribution income – related parties (ii)	108	83
	20,970	19,987

(i) Included in the sundry income was $1,303,000 negligence claim from a legal advisor as disclosed in Note 16.

(ii) The distribution income – related parties earned is from financial assets classified as at fair value through profit or loss. See note 3.3 for an analysis of revenue by major products.

5. Finance income / (costs)

	2011 $'000	2010 $'000
5.1 Interest income:-		
Bank deposits	789	404
Related parties – loan and receivables	65	673
Interest income – other	26	484
	880	1,561
5.2 Interest expense:-		
Bank charges	(24)	(22)
Interest charges – other	–	(316)
	(24)	(338)

Notes to the consolidated financial statements

6. Profit/(Loss) for the year before tax

6.1 Gains and losses and other expenses

	2011 $'000	2010 $'000
Profit/(Loss) for the year has been arrived after charging/(crediting) the following gains and losses and other expenses:-		
Depreciation and amortisation		
Depreciation of property and plant and equipment	257	320
Employee benefits expenses:		
Salaries and wages	8,998	8,031
Superannuation contributions	624	424
Equity-settled share based payment transactions	586	451
Cash-settled share based payment transactions	164	345
Provision for long service and annual leave	120	142
Termination benefits	5	165
Fair value adjustment on loan to key management personnel	13	–
Operating lease expense	1,232	1,165
Write-down of property, plant and equipment	2	5
(Gain)/loss on disposal of investments	(28)	–
Doubtful debts allowance/(recovered)	(222)	482
Net foreign exchange (gain)/losses	(119)	(111)
Settlement of litigation	–	(23)

6.2 Impairment, fair value adjustments and business acquisition costs

	2011 $'000	2010 $'000
Loss for the year includes the following impairment, fair value adjustments and business acquisition costs:-		
Change in fair value of financial assets designated as at fair value through profit or loss	(71)	388
Impairment from investment classified as available for sale	150	87
Impairment of goodwill	2,513	18
Impairment of management rights	4,636	2,048
Impairment of software	–	3,869
Doubtful debts allowance	–	2,127
Acquisition expenses	593	–

Notes to the consolidated financial statements

7. Earnings per share

	2011 Cents per share	2010 Cents per share
Basic earnings/(loss) per share	(3.88)	(4.48)
Diluted earnings/(loss) per share	(3.88)	(4.48)

7.1 Basic earnings per share

	2011 $'000	2010 $'000
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Net profit/(loss)	(5,297)	(5,224)
Adjustments to exclude dividends paid on treasury shares where the dividends are paid in cash and the person can retain the dividends irrespective of whether the option vests	(211)	(253)
Earnings used in the calculation of basic EPS	(5,508)	(5,477)

	2011 '000	2010 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	141,819	122,371

7.2 Diluted earnings per share

	2011 $'000	2010 $'000
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	(5,508)	(5,477)
Adjustments to exclude dividends paid on treasury shares that are dilutive where the dividends are paid in cash and the person can retain the dividends irrespective of whether the option vests	–	–
Earnings used in the calculation of diluted EPS	(5,508)	(5,477)

	2011 '000	2010 '000
Weighted average number of ordinary shares used in the calculation of basic EPS	141,819	122,371
Shares deemed to be issued for no consideration in respect of:		
Employee options	–	–
Weighted average number of ordinary shares used in the calculation of diluted EPS	141,819	122,371
The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:		
Share options	24,049	25,054

Notes to the consolidated financial statements

8. Issued capital

	2011 $'000	2010 $'000
159,642,586 ordinary shares (2010: 139,762,287)	56,867	52,210

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

8.1 Fully paid ordinary shares

	Number of shares '000	Share capital $'000
Balance at 1 July 2009	142,087	52,207
Share options exercised by employees	–	3
Share options buy-back under the APN Property Group Employee Share Purchase Plan	(2,325)	–
Balance at 30 June 2010	139,762	52,210
Share options exercised by employees	–	3
Share options buy-back under the APN Property Group Employee Share Purchase Plan	(1,435)	–
Share options issued under the APN Property Group Employee Share Purchase Plan	351	79
Issue of shares	20,964	4,612
Transaction costs (net of deferred tax)	–	(37)
Balance at 30 June 2011	159,642	56,867

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

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

- The Company issued 20,964,343 new shares at 22 cents per share to ARA Asset Management Limited (ARA AML) which is a leading Asian real estate funds management company, as one of the key terms to a new strategic partnership.
- During the year, the Company cancelled 1,435,000 shares issued under an APN Employee Share Plan (ESS).
- The Company issued 350,956 shares at 22.51 cents to employees pursuant to the APN Employee Incentive Plan.

At 30 June 2011, the fair value of APN Employee Incentive Plan included in the profit and loss account was $236,000 (2010: $480,000), of which $164,000 (2010: $344,807) is estimated for cash-settled employee benefits and $72,000 (2010: $135,193) for equity-settled employee benefits.

At 30 June 2011, the fair value of the share options issued under this arrangement included in equity-settled employee benefits reserve was $514,000 (2010: $316,245).

On 12 November 2010 the Group Managing Director signed a new agreement to extend his employment contract with APN Property Group Limited for a further two years to 31 December 2013. A condition of this agreement is the replacement of the existing option for 6,000,000 shares issued 21 August 2008 with an option for 7,500,000 shares, modified on the 19 November 2010. The incremental fair value granted as a result of this modification is $64,445.

There was no share options issued under the Clive Appleton Share Trust that have been exercised as a result of the partial repayment of the outstanding loan as well as through dividend payments in the current year (2010: Nil).

At 30 June 2011, included in the fully paid ordinary shares of 159,642,586 (2010: 139,762,287) are 16,414,216 (2010: 16,801,108) treasury shares relating to the employee share option plan.

Notes to the consolidated financial statements

9. Reserves

	2011 $'000	2010 $'000
Equity-settled employee benefits	3,793	3,286
Foreign currency translation	(2,075)	(1,665)
Investment revaluation	34	–
	1,752	1,621

9.1 Equity-settled employee benefits reserve

	2011 $'000	2010 $'000
Balance at beginning of financial year	3,286	2,835
Share-based payment	586	451
Issue of shares under the APN Property Group Employee Incentive	(79)	–
Balance at end of financial year	3,793	3,286

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when all the options are fully exercised and all loans outstanding are fully repaid.

	2011 $'000	2010 $'000
9.2 Foreign currency translation reserve		
Balance at beginning of financial year	(1,665)	(912)
Translation of foreign operations	(410)	(753)
Balance at end of financial year	(2,075)	(1,665)

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

	2011 $'000	2010 $'000
9.3 Investment revaluation reserve		
Balance at beginning of financial year	–	–
Valuation gain/(loss) recognised	34	–
Balance at end of financial year	34	–

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss.

Notes to the consolidated financial statements

10. Retained earnings

	2011 $'000	2010 $'000
Balance at beginning of financial year	(19,821)	(12,850)
Net profit/(loss) attributable to members of the parent entity	(5,297)	(5,224)
Dividends provided for or paid (note 11)	(1,996)	(1,747)
Balance at end of financial year	(27,114)	(19,821)

11. Dividends

	2011		2010	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
2011Interim dividend:				
Fully franked at a 30% tax rate	1.25	1,996	–	–
2010 Interim dividend:				
Fully franked at a 30% tax rate	–	–	1.25	1,747
	1.25	1,996	1.25	1,747
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend: Fully franked at a 30% tax rate	–	–	–	–

No final dividend will be paid in respect of the financial year ended 30 June 2011.

	Company	
	2011 $'000	2010 $'000
Adjusted franking account balance	5,908	6,287
Impact on franking account balance of dividends not recognised	–	–
Income tax consequences of unrecognised dividends	–	–

Notes to the consolidated financial statements

12. Acquisition of businesses and management rights

On 31 August 2010, the Group acquired 100% of the issued share capital of ARA Strategic Capital I Pte Ltd (subsequently renamed as APN Funds Management (Asia) Pte Ltd (“FM (Asia)”)), the Singapore based fund manager of ARA Asian Asset Income Fund (“AAAIF”).

Consideration for the transaction includes US$150,000 as business premium plus the fair value of FM (Asia)’s balance sheet at acquisition date. Therefore, at acquisition, the total consideration paid is $521,000 resulting in a total of $174,000 as management rights acquired. The principal activities of FM (Asia) are to provide property fund management services and other consultancy services. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the business combination, are as follows:

Net cash flow on acquisition

Year ended	**Acquiree’s carrying amount before business combination $’000**	**Fair value at acquisition $’000**
Current assets		
Cash and cash equivalents	328	328
Trade and other receivables	35	35
Property, plant and equipment	4	4
Non-Current assets		
Intangibles – Management rights		174
Current liabilities		
Trade and other payables	(20)	(20)
	347	521

Total purchase consideration, satisfied by cash	521
Less: cash and cash equivalent balances acquired	(328)
Net cash flow on acquisition	193

The business premium paid represents the fair value attributed to the expected future cash flows derived from the management of AAAIF, and accordingly has been separately identified and recognised.

Included in the net profit for the period since acquisition is revenue of $555,000 and net loss of $98,000.

Had the business combination been effected at 1 July 2010, the revenue of the Group would be $21,026,000 and net loss $5,295,000. The directors of the Group consider these ‘pro-forma’ numbers represent an approximate measure of the performance of the combined group for the full reporting period so as to provide a reference point for comparison in future periods.

Notes to the consolidated financial statements

13. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2011 %	2010 %
Parent entity			
APN Property Group Limited (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 Funds Management (UK) Limited (APN FM(UK))	United Kingdom	100%	100%
APN Funds Management (UK No.2) Limited (APN FM(UKNo.2) (iv)	United Kingdom	100%	100%
APN European Management Limited (IoM) (iv)	Isle of Man	100%	100%
APN Management No.2 Limited (IoM2) (iii)	Isle of Man	100%	100%
APN Funds Management (Asia) Pte Limited (FM(Asia)) (Note 12)	Singapore	100%	–
APN Property Group Nominees Pty Limited (iii)	Australia	100%	100%
Australian Property Network (Vic) Pty Limited (iii)	Australia	100%	100%
APN No 6 Pty Limited (iii)	Australia	100%	100%
APN No 7 Pty Limited (iii)	Australia	100%	100%
APN No 8 Pty Limited (iii)	Australia	100%	100%
APN No 10 Pty Limited (iii)	Australia	100%	100%
APN No 11 Pty Limited (iii)	Australia	100%	100%
APN No 12 Pty Limited (iii)	Australia	100%	100%

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

(ii) APN Property Group Limited was incorporated on 1 July 2004. On 10 September 2004, APN Property Group Limited acquired APN 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) These companies are members of the tax-consolidated group starting from 1 April 2011.

14. Financing arrangements

	2011 $'000	2010 $'000
The Group has access to the following lines of credit:		
Total facilities available:		
Business card facility	600	600
Facilities utilised at balance date:		
Business card facility	477	461
Facilities not utilised at balance date:		
Business card facility	123	139

Secured by cash deposit placed with the bank as disclosed in note 15 to the financial statements.

Notes to the consolidated financial statements

15. Cash and cash equivalents

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

	2011 $'000	2010 $'000
Cash and bank balances	14,815	8,033
Term deposits (note 15.1)	600	600
	15,415	8,633

15.1 Cash balances not available for use

Included in the cash and cash equivalents is an amount of $156,000 (2010: $74,000) money held in trust by the Group for the funds it manages and an amount of $600,000 (2010: $600,000) held as security deposit for the financing arrangement facility as disclosed in note 14.

15.2 Financing arrangement

At 30 June 2011, the Group's financing arrangement facility is disclosed in note 14.

15.3 Reconciliation of (loss)/profit for the period to net cash flows from operating activities

	2011 $'000	2010 $'000
Cash flows from operating activities		
Profit / (loss) for the year	(5,297)	(5,224)
Add / (less) non-cash items:		
Depreciation and amortisation	257	320
Property, plant equipment written off	2	5
(Gain)/Loss on disposal of investments	(28)	–
Provision for employee benefits	120	142
Provision for leases	57	87
Doubtful debts allowance	(222)	2,609
Equity-settled share based payment transactions	586	451
Cash-settled share based payment transactions	164	345
Fair value adjustment on loan to key management personnel	13	–
(Gain)/Loss on revaluation of fair value of investment	79	388
Impairment from investment classified as available for sale	–	87
Impairment of goodwill	2,513	18
Impairment of management rights	4,636	2,048
Impairment of software	–	3,869
	2,880	5,145
(Increase) / decrease in trade receivables	391	1,754
(Increase) / decrease in other debtors	49	(425)
(Increase) / decrease in accrued income and prepayments	(338)	139
(Decrease) / increase in provisions	(149)	(41)
(Decrease) / increase in payables	2,217	(1,112)
(Increase) / decrease in deferred tax assets	1,867	(1,812)
Increase / (decrease) in provision for income tax	(1,283)	(1,680)
Net cash from operating activities	5,634	1,968

Notes to the consolidated financial statements

16. Contingents assets

16.1 Performance entitlements from APN Development Fund No.1

In accordance with the information memorandum of APN Development Fund No.1, APN FM, being the fund manager of APN Development Fund No.1, has been issued 'B' class units, which relates to entitlements to the performance of the APN Development Fund No.1. These performance entitlements will not be received until the conclusion of the APN Development Fund No.1 or only earlier if 'A' class unit holders receive an IRR greater than 14% on total committed capital.

At 30 June 2011, the performance entitlements is possible, but not probable as 'A' class unit holders have not received an IRR greater than 14% on total committed capital and accordingly, no asset has been recognised in the financial statements.

16.2 Negligence claim

The negligence claim of $1,303,000 from one of the Company's legal advisors has been received during the period and recognised as sundry income in Note 4.

17. Subsequent events

The following significant events have occurred since balance date:

- IHF Acquisition

On 10 August 2011, investors in the listed ING Real Estate Healthcare fund (IHF), voted overwhelmingly to appoint subsidiary company, APN Funds Management Limited as Responsible Entity of the fund. Acquisition of the management of IHF, which was settled on 12 August 2011, adds approximately $200 million to Funds under Management with the prospect of considerable growth over time. Healthcare is one of the largest and fastest growing industries in the world and IHF is well placed to capitalise on the growth opportunities in Australia.

- New Share Placements

Consideration for the acquisition of 67.5% of the IHF management business (the balance is retained by IHF senior managers, Miles Wentworth and Chris Adams) included cash payments of $3.7 million and 1.8 million new APD shares representing value of $0.4 million (at $0.20 per share). In addition, APD issued 0.5 million new shares to each of Miles Wentworth and Chris Adams as a sign-on incentive. The shares were issued on 12 August 2011.

Except as disclosed 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.

Compliance Statement

1. This report has been prepared in accordance with AASB Standards, the Corporations Act 2001 and Corporations Regulations 2001 and other standards acceptable to ASX.
2. This report and the accounts upon which the report is based use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. The report is based on accounts that are in the process of being audited.

Sign here: Date: 29 August 2011

John Freemantle
Chief Financial Officer / Company Secretary