APN | Property Group

APN Property Group Limited and its controlled entities (“APD”)
Appendix 4E – Financial Report for the year ended 30 June 2016

Results for announcement to the market

	2016 $'000	2015 $'000	%
Revenues from ordinary activities	19,881	28,489	(30%)
Profit from ordinary activities after tax attributable to members	7,286	12,674	(43%)
Profit / (Loss) from discontinued operations after tax attributable to members	42,384	(109)	390%
Net profit for the period attributable to members	49,670	12,565	295%
Net tangible assets per share	43.1 cents	28.6 cents	

Dividends

	2016	2015
Interim (cents per share); 100% franked amount	1.25	1.25
Final (cents per share); 100% franked amount	0.50	0.25
Special (cents per share); 100% franked amount	10.00	–
Total (cents per share)	**11.75**	**1.50**

Record date for determining entitlement	29 September 2016
Payment date	18 October 2016

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

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

John Freemantle
Company Secretary

22 August 2016

APN Property Group Limited

ABN 30 109 846 068

Annual report for the financial year ended 30 June 2016

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 2016.

Information about the Directors

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

Chris Aylward
Executive Chairman

- A 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 (transitioned on 17 February 2016)

- A Director since 2004.

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

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

Clive is a Non-Executive Director of Gandel Group (since 1997), Aspen Group (since 2012 and Chairman since June 2016), Arrow International (since 2012) and Perth Airports Corporation (since 2014). He is also a Council Member of Cairnmillar Institute.

Howard Brenchley
BEc
Non-Executive Director

- A Director since 1998.

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

Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the APN Property for Income Fund, one of the largest property securities funds in Australia. In 2014 Howard transitioned to become a Non-Executive Director.

Prior to joining APN, 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 trust sector.

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

Timothy Slattery
BSc, LLB, MBA (London Business School)
Executive Director

- A Director since 2014.

Tim has over 12 years' of experience across real estate, funds management, investment banking and law.

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

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

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

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

- A Director since 17 December 2015.

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

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

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

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

Company Secretary

John Freemantle
B.Bus, CPA

- Company Secretary since 2007.

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

Principal activities

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

During the financial year ended 30 June 2016 APN operated four business divisions:

- Real Estate Securities;
- Industria REIT; and
- Direct Funds; and
- Generation Healthcare REIT (divested on 27 June 2016)

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

Industria REIT (ASX Code: IDR) is an ASX listed fund that owns a workspace focussed portfolio of industrial, technology park and business park assets 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 stable cash returns and capital growth for its investors.

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 retail investors.

Generation Healthcare REIT (ASX Code: GHC) is Australia's only listed real estate entity investing exclusively in healthcare property. With this focus, the fund seeks to partner with quality tenants to access the secure, long term cash flows characteristic of this asset class thereby providing investors with a secure and growing income stream. On 27 June 2016, APN divested its interest in the investment manager responsible for managing GHC to an entity associated with NorthWest Healthcare REIT. Details of this transaction are contained in note 9 and note 30 to the financial statements.

Changes in state of affairs

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

Review of Results and Operations

The Group reported a net profit after tax of $49.7 million for the year ended 30 June 2016, up $37.1 million compared to the prior comparative period (pcp). Contributing to this result was a gain on divestment of APN's interest in the management of Generation Healthcare REIT totalling $22.7 million. Diluted statutory earnings per share from continuing and discontinuing operations increased to 16.60 cents per share (cps) from 5.58 cps.

As at 30 June 2016 net assets increased by $46.5 million to $137.1 million, or 43.10 cps on a net tangible asset (NTA) basis. Included in net assets was cash totalling $72.0 million. After repayment debt, settlement of amounts owing to Minority Interests and payment of tax from the proceeds received from the August 2016 completion of the sale of the majority of APN's co-investment stake in GHC, APN is expected to have available cash of approximately $71.0 million.

Total Funds under Management (FuM), on a like for like basis, increased 20% to $2.2 billion compared to the pcp (i.e. after adjusting for the divestment of the Healthcare operations). Reported Net Operating earnings after tax and Minority Interests was 3.46 cps, up from 3.05 cps in FY15 and in line with the top end of the 3.20 – 3.50 cps upgraded guidance provided. APN's Healthcare operations, which included a significant performance fee, contributed 2.22 cps to this result. A detailed analysis is presented below:

	2016 $'000	2015 $'000
Fund management fees	13,287	11,930
Performance and transaction fees	9,102	6,346
Asset and project management fees	2,858	1,314
Registry and other fees	2,477	2,411
Total net funds management income	**27,724**	**22,001**
Co-investment income	5,235	3,410
Rental and other property related income	1,552	-
Total net income	**34,511**	**25,411**
Employment costs	(9,901)	(9,156)
Occupancy costs	(1,044)	(1,363)
Sales & Marketing costs	(763)	(524)
Other costs	(2,525)	(2,560)
Depreciation & amortisation	(159)	(112)
Finance income / (expenses)	(966)	155
Minority interest (MI) share of operating earnings (before tax)	(4,049)	(2,008)
Operating earnings before tax	**15,104**	**9,843**
Income tax expense	(4,597)	(2,921)
Net Operating earnings after tax and MI[1]	**10,507**	**6,922**
Other non-operating items, including income tax	39,163	5,643
Statutory profit after tax	**49,670**	**12,565**

[1]*Net Operating earnings after tax and MI is an unaudited measurement used by management as the key performance measurement of underlying performance of the Group and includes the results from Healthcare operations until divested on 27 June 2016. It adjusts for certain items recorded in the income statement including minority interests, discontinued operations (Europe), gains on divestments and the fair value movements on the Group's co-investments.*

Net income totalled $34.5 million, versus $25.4 million in 2015 and includes the contribution from the Healthcare operations until 27 June 2016. Fund management fees and co-investment income increased 11% and 54% respectively, reflecting substantial growth in FuM from the Real Estate Securities division (including from the new $52 million Colonial First State First Choice AREIT mandate) and asset valuations.

Net performance and transaction fees increased substantially compared to the pcp, following Generation Healthcare REIT's material outperformance when compared to the S&P/ASX 300 AREIT Accumulation Index and the recognition of $1.0 million of profit share income from the sale and settlement of the Newmark APN Auburn Property Fund.

Rental and other property income of $1.6 million was recorded in the current financial year related to the planned seed assets for the APN Convenience Retail Property Fund. Following a strategic review, and as announced on 11 August 2016, these assets are being actively marketed for sale, with Eagleby sold subsequent to 30 June 2016 for $4.85 million.

APN as a co-investing fund manager increased its direct co-investment stake in Industria REIT by $12.5 million to 13.9% and provided a cornerstone investment of $2.8 million for the launch of the APN Steller Development Fund. As a result, co-investment income increased 54% to $5.2 million for the year. This co-investing fund manager business model was a significant contributing factor in achieving the outstanding result on the sale of the Healthcare operations. Following the exercise of the put and call option deed, APN's co-investment stake in Generation Healthcare REIT is expected to reduce from 28.6 million units to 1.9 million units, valued at approximately $4.2 million at balance date.

Operating costs increased to $14.2 million versus the prior comparative period of $13.6 million reflecting the increased investment in our marketing and operations that delivered our first wholesale real estate securities investment mandate (with Colonial First State), a modest increase in employment costs, including the cost for the acceleration of share based payments expense as a result of performance hurdles being exceeded and executive search and related costs to recruit to two senior positions to lead Industria REIT and the Direct Property operations.

Other non-operating items totalled $39.2 million for the period compared to $5.6 million in the prior year, primarily attributable to the mark to market gains from APN's co-investments in Generation Healthcare REIT and Industria REIT and the $22.7 million profit after tax recognised on divestment of APN's Healthcare operations.

- ***Real Estate Securities***

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

RES Funds under Management increased 29% from $1.2 billion to $1.6 billion at 30 June 2016 reflecting a continuation of market demand for liquid, relatively high yielding commercial property investments and the capital appreciation of the AREIT market. The APN AREIT Fund continued to report solid net inflows, averaging approximately $11.7 million per month, while the new $52m CFS mandate at 30 June 2016 delivered $0.7m net inflows in June 2016, its first full month of operation. The APN Asian REIT Fund attracted over $4.1 million in net inflows, an increase of over $3.2 million from the prior year, as a number of new marketing initiatives delivered results. Importantly, from July 2016 the Fund is now available on the Macquarie Wrap platform. Net outflows continued to decline for the Property for Income Funds' and totaled $41 million for the year.

The performance of our funds remained 'true to label' with both the APN AREIT Fund and the APN Asian REIT Fund reporting consistent and relatively high levels of income, some capital growth and lower than market volatility over 1, 3 and 5 year time frames. Both the APN Asian REIT Fund and APN AREIT Fund remain highly rated by research houses, with the APN AREIT Fund winning the 2016 Australian Financial Review Smart Investor Blue Ribbon Award for best Australian listed property fund.

RES's priorities for 2016 remain focused on continuing to deliver strong investment performance and service for its investors. The opportunity presented by the CFS AREIT mandate win is significant, delivering a notable increase in advisors with the potential to write business for APN's AREIT strategy. There are a number of new product opportunities / distribution channels that are currently in progress, which if successful will further enhance the strong momentum in this business.

Highlights

- APN AREIT Fund awarded 2016 Australian Financial Review Smart Investor Blue Ribbon Award for best Australian listed property fund
- Won Colonial First State First Choice AREIT mandate
- Funds under Management up 29% to $1.6 billion
- Average monthly net inflows totalling $8.6 million across all retail products (ex CFS mandate win)

Priorities

- Maintain strong investment performance across all products
- Capitalise upon the Colonial First State AREIT mandate win
- Establish a new Portfolio Investment Entity (PIE) for the New Zealand market
- Seek additional mandates and new product opportunities

- ***Industria REIT***

Industria REIT (IDR) is an ASX listed real estate investment trust which owns office and industrial properties that provide functional and affordable workspaces for businesses. IDR's $422 million portfolio of properties, located across the major Australian cities, provides sustainable income and capital growth prospects for security holders over the long term. APN, with its RES funds, hold approximately 18.9% of IDR.

Financial Year 2016 delivered operating results at the top end of

Highlights

- Funds under Management up 4% to $422 million
- Property management and leasing initiatives delivered, WALE strong at 4.9 years and occupancy boosted to 96%
- 3 Brisbane Technology Park assets

expectations including significant leasing success, predominantly in Brisbane Technology Park, to take overall portfolio occupancy to 96%. IDR's gearing is approximately 33%, within its target gearing band of 30%-40%, providing flexibility for future growth without compromising its low-risk approach to capital management. In the period IDR agreed terms to sell two properties in the Brisbane Technology Park at an average premium of 13% against their prior book values.

Net profit attributable to security holders increased $8.5 million to $31.2 million, largely due to investment property valuation gains. Funds From Operations (FFO) was $21.5 million (17.50 cents per security), up $0.2 million on pcp, with net tangible assets gaining 10 cents per security to total $2.12 as at 30 June 2016, an increase of 5% over June 2015.

Funds under Management increased 4% to $422 million, reflecting portfolio valuation gains arising from the continued strong property markets. Management's focus for FY17 continues to be on asset management initiatives / leasing transactions, with acquisition opportunities to be considered with the ongoing objective of delivering increased value for IDR's investors.

sold or contracted for sale at prices at or above book value

- Clear and simple focus on generating sustainable income and capital growth returns through owning property that provides well located and attractively priced workspaces for business

Priorities

- Continue active property management to enhance income security and returns for investors
- Pursue value adding acquisition and capital recycling opportunities
- Maintain a disciplined approach to cost and capital management.

- ***Direct Funds***

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

Funds under Management increased 3% to $205 million at 30 June 2016 following the establishment of the $18.1 million APN Steller Development Fund in September 2015. As announced on 11 August 2016 and following the conclusion of a strategic review, the seed assets acquired for the planned APN Convenience Retail Property are now being marketed for sale. The first asset (7-Eleven Eagleby, Qld) was sold for $4.85 million subsequent to year end versus its purchase price of $4.425 million with settlement expected to occur in November 2016.

Key priorities for FY17 are to actively manage the existing property portfolio and Funds in line with their investment mandates and to source new direct real estate opportunities that will meet the needs of our investor base.

Highlights

- Funds under management up 3% to $205 million
- $18.1 million APN Steller Development Fund established
- Active property and leasing across the property portfolio

Priorities

- Active property management to enhance income security and returns for investors
- Source new real estate fund opportunities
- Continue to broaden our direct investor base

- ***Generation Healthcare REIT (until divestment on 27 June 2016)***

Generation Healthcare REIT (GHC) is Australia's only ASX listed healthcare real estate investment entity. Investing exclusively in healthcare property, with a focus on partnering with high quality tenants, GHC delivers investors access to secure, long term diversified income yields.

GHC is managed by Generation Healthcare Management Pty Ltd (GHM) and was a joint venture between entities associated with Miles Wentworth, Chris Adams and APN Property Group Limited. On 27 June 2016 an entity associated with the Canadian listed NorthWest Healthcare Properties REIT (NorthWest) acquired GHM for $58.5 million and entered into an agreement to acquire APN's associated co-investment stake of 12.2%. Under the terms of the transaction, all the GHM property management team were transferred to NorthWest and APN Funds Management Limited agreed to remain the responsible entity of GHC for a period of up to 2 years and 2 months under a transition agreement.

GHC's strong performance has continued throughout FY16. Distributions paid to investors increased 3.0% compared to the pcp, and GHC delivered a total return to investors of 41.6%, outperforming the S&P/ASX 300 Property Accumulation Index return by 17.0%. Good progress was made on both the Frankston Private expansion project (Healthscope Limited pre-committed) and Stage 2 at Casey, being a new private hospital in joint venture with St John of God Health Care, with construction now well underway on both projects.

Highlights

- Funds under Management up 11% to $450 million before divestment on 27 June 2016
- Total investor returns of 41.6% delivered for the period
- Good progress on delivering the organic growth pipeline (Casey Stage 2 & Frankston Private Hospital expansion)

Dividends

The directors have declared a final ordinary dividend (fully franked) of 0.50 cents per share (cps) and a special dividend (fully franked) of 10.00 cps from the profits realised on the divestment of the Healthcare operations. These dividends will be paid on 18 October 2016 to those investors registered as at 29 September 2016. In conjunction with the fully franked interim dividend of 1.25 cents per share paid on 12 April 2016, ordinary dividends paid have increased 16.7% or 0.25 cents compared to the prior year. The distribution reinvestment plan has been suspended.

Outlook

Growth in the Australian economy continues to be below trend, with the Reserve Bank of Australian cutting its cash rate to a record low of 1.50% in efforts to stimulate the local economy. Global and domestic sentiment remains fragile, leading to heightened volatility in domestic and international equity markets. Significant levels of public and private debt in most economies around the world, demographic challenges in most developed markets and current and near term geopolitical events including Britain's referendum decision to exit the European Union and the upcoming US Presidential election will weigh on the outlook for FY17. Accordingly inflation and growth prospects, as well as investment returns for risk assets are expected to remain relatively low and volatile for the foreseeable future.

In Australia, financial institutions continue to tighten the availability of credit in response to prudential regulations, particularly for certain segments of the residential property market, and debt pricing continues to move higher.

Commercial property markets continue to be net beneficiaries of this environment as investors seek quality real estate backed by sustainable and transparent cashflows, offering attractive income yields relative to cash and fixed interest investments. APN with its full service property and funds management platform and predominately yield focused products is ideally positioned to continue to perform well in this low growth, low inflation and low interest rate environment.

Earnings and Dividend Guidance

Operating Earnings after tax is forecast to be in the range 1.60 – 2.00 cents per share for FY2017, reflecting the effect of the divestment of the Healthcare operating division. FY17 Dividend guidance is 1.75 cps.

This guidance only includes the impact of those transactions previously announced and therefore does not include any future market or event driven performance and transaction income, nor any new initiatives or opportunities that the Group may pursue over the course of the year (including with the Company's cash which is currently invested at market cash rates). In providing this guidance the operating environment, regulatory landscape and equity market conditions are assumed to remain stable.

Key risks

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

- ***Regulatory risk***

APN operates in a highly regulated environment and our success can be impacted by breaches to our or our key customers (i.e. bank intermediated wraps and platforms) regulatory licence conditions, changes to the regulatory environment and the structure of the markets that we operate in. Regulatory breaches may affect APN and its key customers through penalties, liabilities, restrictions on activities and compliance and other costs. We have established a regulatory compliance framework to monitor compliance with our regulatory licence requirements at all times.

In addition, the Australian funds management industry continues to operate in a period of significant regulatory change with respect to superannuation and to the provision of financial advice, external scrutiny and digital disruption. The interpretation, practical implementation and reputational consequences of changes could adversely impact APN's business model or result in its business and or strategic objectives not being achieved. APN closely monitors and actively engages with industry bodies on changes that could impact our business.

- ***Operational and market risk***

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

Subsequent events

On 8 August 2016, Northwest exercised its call option under the put and call option deed signed on 27 June 2016 to purchase 26,719,378 units at $2.20 per unit in Generation Healthcare REIT (GHC). Settlement is scheduled for 23 August 2016.

On 11 August 2016, APN announced that it had executed a contract for the sale of 7-Eleven Eagleby, Queensland for $4.85 million, a 10% premium to its 2015 purchase price of $4.425 million. Settlement is scheduled for November 2016 (subject to standard settlement terms) with the net proceeds to be applied to the repayment of debt facilities.

Directors' shareholdings

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

	Directors				
	Christopher Aylward	Clive Appleton	Howard Brenchley	Timothy Slattery	Anthony Young
APN Property Group Limited					
Number of fully paid ordinary shares	76,400,000	915,001	9,500,000	353,780	10,544,407
Number of shares issued under limited or Non-recourse loans, disclosed as share options	–	3,900,001	–	7,500,000	–
Number of securities in a related body corporate					
Industria REIT	–	–	–	25,666	–
APN Property for Income Fund No. 2	–	9,077	–	–	–
APN AREIT Fund	–	507,352	96,940	–	–
APN Asian REIT Fund	–	75,942	–	–	–
Newmark APN Auburn Property Fund	4,000,000	–	100,000	50,000	–
APN European Retail Property Group	366,826	3,495	2,437	–	–
APN Steller Development Fund	600,000	–	–	40,000	–
APN Property Plus Portfolio	–	–	10,000	–	–
APN Regional Development Fund	–	–	11,474	–	–

Share options granted / exercised

In the period since 30 June 2015, there was no share options granted to directors / officers by the Company and its controlled entities as part of their remuneration. Details of the share options granted in prior years are set out in note 27.

In the period since 1 July 2015, only the following options over unissued shares (in relation to share options granted in prior years under the employee share option plan) were exercised during the financial year:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
APN Property Group Limited	1,840	Ordinary shares	1,840	–

Unissued shares under option

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

Directors' meetings

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

	APN Board	
Directors	Held	Attended
Christopher Aylward	10	10
Clive Appleton	10	9
Howard Brenchley	10	10
Timothy Slattery	10	10
Anthony (Tony) Young[(i)]	5	5

(i) Appointed on 17 December 2015

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

	APN FM Board		Audit, Compliance and Risk Management committee		Nomination and Remuneration committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon	18	18	9	9	2	2
Jennifer Horrigan	18	18	9	9	2	2
Michael Johnstone	18	18	9	9	2	2
Howard Brenchley	18	14 (ii)	N/A	N/A	N/A	N/A
Michael Groth (i)	18	13 (ii)	N/A	N/A	N/A	N/A

(i) Alternate for Howard Brenchley

(ii) Did not participate in four meetings under APN's Related Party and Conflicts of Interest Policy

Future developments

The Group remains focused on providing growth in its funds management business. Disclosure of information regarding likely developments in the operations of the Group in the 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. The Company has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 23 of the annual report. No officer of the Company was a partner or director of the auditor at any time when the auditor undertook an audit of the Company.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 32 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 32 do not compromise the external auditor's independence, for the following reasons:

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

Rounding off of amounts

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

Remuneration Report

Director and key management personnel details

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

Directors of APN

- Christopher Aylward (Executive Chairman)
- Timothy Slattery (Executive Director)
- Howard Brenchley (Non-Executive Director)
- Clive Appleton (Independent Non-Executive Director)
- Anthony (Tony) Young (Independent Non-Executive Director, appointed on 17 December 2015)

Directors of APN FM

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

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

- John Freemantle (Company Secretary)
- Michael Groth (Chief Financial Officer)

Remuneration policy for directors and key management personnel

Principles of compensation

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

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

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

- the capability, qualifications and experience of the directors and key management personnel;
- the directors' and key management personnel's ability to control the Group's performance;
- the Group's performance including:
  - the Group's earnings;
  - the growth in the Company's share price and delivering constant returns on shareholder wealth; and
- the amount of performance based incentives included within each director and key management personnel compensation packages.

Compensation of non-executive directors

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

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

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

Compensation of executive directors and key management personnel

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

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

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

Fixed compensation

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

Short term incentives (STI)

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

A limited number of employees have the opportunity to earn bonuses in accordance with pre-determined performance criteria. These arrangements are approved in advance by the Board. It is a condition of the incentive, that bonuses earned are payable in three equal installments over two years, conditional upon continued employment at the time each payment is due.

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

Long term incentives (LTI)

Long term incentives are generally equity based incentives designed to attract, retain and motivate selected employees' who can contribute to the strategic objectives and success of the Group. Participation in the ownership of the APN Group through LTI's is subject vesting criteria aligned to the creation of long term shareholder value.

APN Employee Performance Securities Plan (EPSP)

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

At 30 June 2016, the fair value of the share options issued and included in the equity compensation reserve is $1,714,857 (2015: $1,091,621).

Terms and conditions of share based payment arrangements affecting the remuneration of key management personnel in the current financial year:

Options series	Grant date	Number	Exercise price	Grant date fair value
(12) 8 May 2014	8 May 2014	5,000,000	$0.26	$0.121
(13) 8 May 2014	8 May 2014	5,000,000	$0.26	$0.140

Series (12) – (13): The performance criteria have been satisfied as at 31 December 2015 and these share options are fully vested and can be exercised at any time.

There was no share options granted, 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 2016, $2,000 (2015: $nil) has been recognised as employee expenses and included in the equity compensation reserve.

Other Incentive Plans (no longer in operation)

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

APN Employee Share Plan (ESS)

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

Clive Appleton Share Trust (CAST)

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

At 30 June 2016, 3,900,001 (2015: 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 (2015: $104,000). The shares are fully vested and can be exercised at any time.

Miles Wentworth and Chris Adams (MWCA)

The last issue under the MWCA plan was in August 2011. The shares were issued as a sign-on incentive as part of the Group's acquisition of 67.5% of the Generation Healthcare REIT management business. The issue price of the shares was fully financed by limited recourse loans provided by the Group. Dividends are for the benefit of the individuals. The individuals are not permitted to deal in the shares until the limited recourse loan has been repaid. Shares issued under the MWCA plan are characterised as share options. Following the divestment of the Generation Healthcare REIT business and Miles Wentworth and Chris Adams ceasing to be employees of APN, the limited recourse loans were due and payable as at 30 June 2016, with repayment being received on 1 July 2016.

At 30 June 2016, the fair value of the share options issued and included in equity compensation reserve is $nil (2015: $nil).

Project Specific Incentives

- There are a limited number of commitments made to provide incentives to staff directly involved with the success of development projects undertaken by development funds managed by APN FM. These have been structured to comply with the expectations of the investors in these funds that key staff rewards be aligned to the project outcomes.
- Incentives will be paid in accordance with the successful delivery of certain prescribed milestones established for project success. The milestones are matched to the parameters under which APN can earn management fees from these projects. No bonuses will be paid unless APN first earns a fee from achieving these milestones.

Executive Directors and Key Management Personnel service agreements

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

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

- an annual remuneration package and benefits including superannuation which is reviewed at least on an annual basis with reviews currently effective on 1st July each year;
- the basis of termination or retirement and the benefits and conditions as a consequence;
- agreed provisions in relation to annual leave and long service leave, confidential information, intellectual property; and
- a restrictive covenant preventing the employees from engaging in specified activities after their employment with the Group ceases.

Service agreement entered into with Executive Director, Christopher Aylward, is as set out below.

- Christopher Aylward has entered into an open ended agreement which is terminable by either party with six months notice. The agreement provides for a total remuneration package of $30,000 per annum (excluding share-based payments, long service leave benefits and other non-monetary benefits, if applicable).

There are no other 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 between 3 to 6 months, except as otherwise stated above.

Relationship between the remuneration policy and Company performance

The Company considers that its remuneration structures have been successful in incentivising employees to enhance Company performance and shareholder wealth over the 5 years to 30 June 2016 as illustrated in the table below:

	30 June 2016 $'000	30 June 2015 $'000	30 June 2014 $'000	30 June 2013 $'000	30 June 2012 $'000
Revenue	39,056	28,699	25,381	18,526	19,610
Sundry income	18	38	49	11	2
Total revenue	39,074	28,737	25,430	18,537	19,612
Net profit before tax	71,748	18,068	13,652	2,448	1,980
Net profit after tax	54,747	14,839	9,280	1,368	2,300

	30 June 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
Share price at start of year	$0.37	$0.29	$0.21	$0.16	$0.17
Share price at end of year	$0.50	$0.37	$0.29	$0.21	$0.16
Interim dividend (i)	1.25 cps	1.25 cps	1.25 cps	1.25 cps	1.25 cps
Final dividend (i), (ii)	0.50 cps	0.25 cps	–	–	–
Special dividend (i), (ii)	10.00 cps	–	–	–	–
Basic earnings per share	16.96 cps	5.65 cps	3.94 cps	1.28 cps	1.36 cps
Diluted earnings per share	16.60 cps	5.58 cps	3.93 cps	1.28 cps	1.30 cps

(i) Franked to 100% at 30% corporate income tax rate.
(ii) Declared after the balance date and not reflected in the financial statements.

Remuneration as a percentage of actual aggregate remuneration for the year ended 30 June 2016

	Non Performance based		Performance based remuneration			
	Fixed remuneration		LTI – Performance shares		STI – Cash based	
	2016	2015	2016	2015	2016	2015
Directors – Executive						
Christopher Aylward, Executive Chairman	100.00%	100.00%	–	–	–	–
Timothy Slattery, Executive Director	53.37%	63.12%	46.63%	36.88%	–	–
Directors – Non-Executive (APN)						
Clive Appleton (Independent)	100.00%	100.00%	–	–	–	–
Howard Brenchley	100.00%	100.00%	–	–	–	–
Anthony Young (Independent)(i)	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						
John Freemantle	93.48%	93.42%	–	(3.67%)	6.52%	10.24%
Michael Groth	51.43%	63.37%	48.41%	36.63%	0.16%	–

(i) Appointed on 17 December 2015

Director and Key Management Personnel remuneration

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

2016	Short-term employee benefits Salary & fees $	Bonus $	Non-monetary (ii) $	Post-employment benefits Super-annuation $	Other long-term employee benefits Long service leave $	Share-based payment(iii) Equity-settled Shares & units $	Options & rights $	Total $
Directors – Executive								
Christopher Aylward, Executive Chairman	27,397	–	11,329	2,603	–	–	–	41,329
Timothy Slattery(i)	305,692	–	11,329	19,308	20,368	–	311,618	668,315
Directors – Non-Executive (APN)								
Clive Appleton (Independent)	77,626	–	–	7,374	–	–	–	85,000
Howard Brenchley (ii)	192,000	–	–	–	–	–	–	192,000
Anthony Young (Independent)(i)	45,927	–	–	–	–	–	–	45,927
Directors – Non-Executive (APN FM)								
Geoff Brunsdon (Independent)	182,750	–	–	–	–	–	–	182,750
Jennifer Horrigan (Independent)	97,032	–	–	9,218	–	–	–	106,250
Michael Johnstone (Independent)	136,000	–	–	–	–	–	–	136,000
Key Management Personnel								
John Freemantle(i)	245,692	20,000	11,329	19,308	4,849	1,000	–	302,178
Michael Groth(i)	305,692	–	–	19,308	6,034	1,000	311,618	643,652
Total compensation: (Group)	1,615,808	20,000	33,987	77,119	31,251	2,000	623,236	2,403,401
Total compensation: (Company)	1,200,026	20,000	33,987	67,901	31,251	2,000	623,236	1,978,401

(i) Company and Group
(ii) Howard Brenchley is also a Non-executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(iii) This relates to car parking benefits and the relevant fringe benefit tax provided during the year.
(iv) Options were priced using Black-Scholes option pricing model. No new options were issued in the current year. The amount recognised in compensation expense relates to the systematic recognition of the expense over the vesting period of options issued in May 2014.

2015	Short-term employee benefits Salary & fees $	Bonus $	Non-monetary (ii) $	Post-employment benefits Super-annuation $	Other long-term employee benefits Long service leave $	Share-based payment(iii) Equity-settled Shares & units $	Options & rights $	Total $
Directors – Executive								
Christopher Aylward, Executive Director	27,397	–	63,549	2,603	–	–	–	93,549
Timothy Slattery(i)	306,217	–	10,329	18,783	–	–	195,907	531,236
Directors – Non-Executive (APN)								
Clive Appleton	77,626	–	–	7,374	–	–	–	85,000
Howard Brenchley	192,000	–	7,628	–	–	–	–	199,628
Directors – Non-Executive (APN FM)								
Geoff Brunsdon (Independent)	182,750	–	–	–	–	–	–	182,750
Jennifer Horrigan (Independent)	97,032	–	–	9,218	–	–	–	106,250
Michael Johnstone (Independent)	136,000	–	–	–	–	–	–	136,000
Key Management Personnel								
John Freemantle(i)	238,556	30,000	10,329	18,783	6,006	–	(10,739)	292,935
Michael Groth(i)	306,217	–	–	18,783	13,900	–	195,907	534,807
Total compensation: (Group)	1,563,795	30,000	91,835	75,544	19,906	–	381,075	2,162,155
Total compensation: (Company)	1,148,013	30,000	91,835	66,326	19,906	–	381,075	1,737,155

(i) Company and Group
(ii) Howard Brenchley is also a Non-executive Director of APN Funds Management Limited and the total remuneration disclosed is in respect to both roles.
(iii) This relates to car parking benefits, travel and the relevant fringe benefit tax provided during the year.
(iv) Options were priced using Black-Scholes option pricing model. No new options were issued in the current year. The amount recognised in compensation expense relates to the systematic recognition of the expense over the vesting period of options issued in May 2014.

Loans to key management personnel

There are no loans to key management personnel in the current period (2015: $nil).

Key management personnel equity holdings

Fully paid ordinary shares of APN Property Group Limited

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

(i) 1 Appointed on 17 December 2015

2015	Balance at 30 June 2014 No.	Granted as compensa-tion No.	Received from share gift plan No.	Purchased No.	Disposed No.	Balance at 30 June 2015 No.	Balance held nominally No.
Directors							
Christopher Aylward	63,390,941	–	–	12,147,820	–	75,538,761	–
Clive Appleton	780,001	–	–	135,000	–	915,001	–
Howard Brenchley	8,499,978	–	–	1,000,022	–	9,500,000	–
Timothy Slattery	134,704	–	–	162,076	–	296,780	–
Key Management Personnel							
John Freemantle	392,007	–	–	51,351	–	443,358	–
Michael Groth	1,645	–	–	135,135	–	136,780	–

Share options of APN Property Group Limited

2016	Balance at 30 June 2015 No.	Granted as compen-sation No.	Exercised No.	Net of other changes No.	Balance at 30 June 2016 No.	Balance vested at 30 June 2016 No.	Vested but not exerci-sable No.	Vested and exerci-able No.	Options vested during year No.
Directors									
Clive Appleton	3,900,001	–	–	–	3,900,001	3,900,001	–	3,900,001	–
Timothy Slattery	7,500,000	–	–	–	7,500,000	7,500,000	–	7,500,000	5,000,000
Key Management Personnel									
John Freemantle	500,000	–	–	–	500,000	500,000	–	500,000	–
Michael Groth	7,525,000	–	–	–	7,525,000	7,525,000	–	7,525,000	5,000,000

2015	Balance at 30 June 2014 No.	Granted as compen-sation No.	Exercised No.	Net of other changes No.	Balance at 30 June 2015 No.	Balance vested at 30 June 2015 No.	Vested but not exerci-sable No.	Vested and exerci-able No.	Options vested during year No.
Directors									
Clive Appleton	3,900,001	–	–	–	3,900,001	3,900,001	–	3,900,001	–
Timothy Slattery	7,500,000	–	–	–	7,500,000	2,500,000	–	2,500,000	–
Key Management Personnel									
John Freemantle	500,000	–	–	–	500,000	500,000	–	500,000	–
Michael Groth	7,525,000	–	–	–	7,525,000	2,525,000	–	2,525,000	–

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

During the financial year/last financial year, no options were exercised by key management personnel. Further details of the employee share option plan and share options granted during the 2016 and 2015 financial years are contained in note 27.

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
Executive Chairman

22 August 2016

APN Corporate Governance Statement

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

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

- The Board of APN (Board) comprises five directors, who collectively have a relevant interest in over 34% of the issued capital of the Company. Two directors are also executives of the Company. The Board is responsible for the overall management of the Company and of the APN Group and is strongly focussed on serving the interests of all shareholders.
- The Board of APN FM comprises four Directors, three of whom are independent of the business and of the board of APN. All directors of APN FM have a legal obligation to put the interests of investors in the respective managed funds, ahead of their own, and those of APN.

The Company Secretary is accountable directly to each Board, through the chair, on all matters to do with the proper functioning of that board.

The Board considers that separation of the boards ensures that the responsibility for managing the interests of shareholders in APN is completely independent of managing the interests of the APN funds and their respective investors. The separation also assists in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

This statement, approved by the Board of APN Property Group Limited on 17 August 2016, outlines the main corporate governance practices in place throughout the 2016 financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

The Board of APN has adopted the following Corporate Governance policies and procedures:

Role and responsibility of the Board

The Board is responsible for the overall management of the Company and of the APN Group including the determination of the APN Group's strategic direction.

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, the Board is responsible for:

- Oversight of the APN Group, including its control and accountability systems;
- Setting the aims, strategies and policies of the APN Group, in particular in respect of:
    - the direction of the APN Group's property funds management business (including the establishment of new funds from time to time); and
    - the decisions to co-invest in APN managed funds;
- Appointing and removing the Managing Director of APN (or equivalent); and where appropriate, ratifying the appointment and the removal of senior executives of APN including, but not limited to, the Chief Financial Officer (or equivalent) and Company Secretary;
- Providing input into and final approval of management's development of corporate strategy and performance objectives for the APN Group;
- Reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance for the APN Group;
- Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- Approving and monitoring the progress of major capital expenditure, financial reporting, capital management and acquisitions and divestitures within the APN Group; and
- Approving and monitoring financial and other reporting obligations of entities within the APN Group.

Audit and risk management

The Board has not appointed an audit and risk management committee (though it presently intends to do so) and accordingly is responsible for the audit and risk management functions in respect of the Company. The audit and risk management functions of the Board are:

External audit

- to determine the appointment and removal of external auditors;
- to monitor compliance with the Corporations Act in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditor;
- to review and consider the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditor's reports;
- to commission such enquiry by the external auditors as the Board deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the external auditor's compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review APN's financial statements and related notes, and ensure they are consistent with information known to Board members and that they reflect appropriate accounting principles, standards and regulations [Note 1];
- to review the external auditor's reviews or audits of APN's financial statements and corresponding reports;
- to consider any significant changes required in the external auditor's audit plans;
- to review accounting and reporting issues as they arise; and
- to review any disputes or issues that may arise during the course of an audit.

Note 1

Prior to approval of the entity's financial statements for any financial period, the Committee receives from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Risk management

- to monitor the management of risks relevant to the APN Group;
- to review the APN Group's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks (Governance Policies)) and whether it identifies all areas of potential risk and also ensures the APN Group has in place:
  - a procedure for identifying risks and controlling financial or other impacts on the APN Group;
  - an adequate system of internal control, management of business risks and safeguarding of assets;
  - a system for reporting and investigating breaches of the APN Group's compliance and risk management procedures and Governance Policies; and
  - a review of internal control systems and the operational effectiveness of the Governance Policies and procedures related to risk and control; and
- to ensure that regular audits of the Governance Policies are conducted to monitor compliance;
- to monitor compliance with the APN Group Conflicts of Interest and Related Party Transactions Policy and comply with its obligations under the policy;
- to oversee investigations of allegations of fraud or malfeasance.

The Board will immediately delegate the audit and risk management functions to a board committee if so required by the Listing Rules, Corporations Act or any other applicable laws.

A review of the risk management program took place during the year.

Nomination and remuneration

The Board has not appointed a nomination and remuneration committee (though it presently intends to do so) and accordingly is responsible for the nomination and remuneration functions in respect of the entities within the APN Group. The nomination and remuneration functions of the Board are:

- determining the appropriate size and composition of the Board, together with the board of APN FM;
- the appointment, re-appointment and removal of directors;
- developing formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the Board and the board of APN FM in the context of each board's existing composition and structure;
- developing a succession plan for the Board and the board of APN FM and regularly reviewing the succession plan;
- implementing induction procedures designed to allow new directors to participate fully and actively in Board decision-making at the earliest opportunity;
- implementing induction programs that enable directors to gain an understanding of:
  - the APN Group's financial, strategic, operational and risk management position;
  - their rights, duties and responsibilities which, in the case of directors of APN FM, includes their specific duties and responsibilities as directors of a corporate trustee and responsible entity; and
  - the role of the Board and Board committees;
- providing directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- developing a process for performance and remuneration evaluation of the Board, its committees and individual directors and key executives, which can be made available to the public;
- developing remuneration and incentive policies which motivate directors and management to pursue the long-term growth and success of the APN Group within an appropriate control framework;
- developing policies which demonstrate a clear relationship between key executive performance and remuneration;
- the remuneration and incentive policies for senior executives within the APN Group; and
- the remuneration packages of senior executives and directors.

A copy of the APN Board Charter is available on the Company's website at:
http://apngroup.com.au/about-us/governance/

The Board of APN FM has adopted Corporate Governance policies and procedures as follows:

Roles and responsibility of the Board of APN FM

The Board is responsible for the overall management of the Company and in particular the proper governance as responsible entity for the managed investment schemes currently operated by APN.

A copy of the APN FM Board Charter is available on the Company's website at:
http://apngroup.com.au/about-us/governance/

Audit, Compliance and Risk Management Committee for Managed Investment Schemes – APN FM

The Board of APN FM has established an Audit, Compliance and Risk Management Committee. Responsibility for overseeing APN FM's responsibilities for audit, compliance and risk management for itself and each APN fund is managed by this committee.

A copy of the Charter for the APN FM Audit, Compliance and Risk Management Committee is available on the Company's website at: http://apngroup.com.au/about-us/governance/

Nomination and Remuneration Committee for Managed Investment Schemes – APN FM

The Board of APN FM has established a Nomination and Remuneration Committee for overseeing APN FM's responsibilities for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund.

A copy of the Charter for the APN FM Nomination and Remuneration Committee is available on the Company's website at: http://apngroup.com.au/about-us/governance/

Composition, Structure and Processes

The Board currently comprises five directors (two of whom are also executives of the Company). Each has a significant relevant interest in the Company. The names and biographical details of the directors are set out above.

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including the basis upon which they will be indemnified by the Company. Non-executive directors are entitled to take independent advice at the cost of the Company in relation to their role as members of the Board.

Review of Board performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees (if any);
- Board processes and its committees' (if any) effectiveness in supporting the Board; and
- the performance of the Board and its committees (if any).

A review of each Director's performance is undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election.

Ethical Standards, Market Communication and Conflict of Interest

Code of Conduct

The Board of the Company has adopted a Code of Conduct that applies to all directors and employees of the Company and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of the Company directors and all employees and encourage the observance of those standards, and to ensure high standards of corporate and individual behaviour are observed by all of the Company's employees in the context of their employment with the Company. By adoption of the Code of Conduct, the Company wants to ensure that all persons dealing with the Company, whether it be employees, shareholders, investors, customers or competitors, can be guided by the stated values and policies of the Company.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors and employees and other legal and compliance obligations of the Company including corporate opportunities, confidentiality, fair dealing, protection of and proper use of Company information and assets, compliance with laws and regulations and encouraging the reporting of unlawful or unethical conduct.

A copy of the Code of Conduct is available at the Company's website at:
http://apngroup.com.au/about-us/governance/

Securities Trading Policy

The Company has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of the Company and its subsidiaries for permission and disclosure of trading by directors and employees in APN Group securities.

The Securities Trading Policy applies to all directors, executives, senior management and other employees of the Company and its subsidiaries and is designed to prevent breaches of the insider trading provisions by directors and employees of the Company and its subsidiaries. The Securities Trading Policy confirms that it is the responsibility of all directors and employees to comply with the insider trading provisions of the Corporations Act and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of the Company or its subsidiaries, as appropriate.

A copy of the Securities Trading Policy is available at the Company's website at:
http://apngroup.com.au/about-us/governance/

Continuous Disclosure

The Company has adopted a Continuous Disclosure Policy to ensure that shareholders and the market have equal and timely access to material information regarding developments in relation to the Company in accordance with applicable disclosure requirements in both the Corporations Act and the ASX Listing Rules. Such information will relate to matters including the financial position, performance, ownership and governance in relation to the Company.

A copy of the Continuous Disclosure Policy is available at the Company's website at:
http://apngroup.com.au/about-us/governance/

Communication with shareholders

The Company has adopted a Communication Policy in order to ensure that there is effective communication between the Company and its shareholders, and also to encourage shareholders to participate at general meetings.

In accordance with the Company's Communication Policy, the APN Group website (www.apngroup.com.au) is a significant component of the communications strategy. The Company ensures that its website is continually updated and contains recent announcements, webcasts, presentations, disclosure documents, market information and answers to frequently asked questions.

A copy of the Communication Policy is available at the Company's website at:
http://apngroup.com.au/about-us/governance/

Diversity

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as follows:

What is Workplace Diversity?

Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio-economic background, language, religion, education, and family / marital status. It also refers to diverse ways of thinking and ways of working.

Statement of Commitment

As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.

We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Diversity Policy

APN Property Group has adopted a Diversity Policy (a copy of which is available at the Company's website at http://apngroup.com.au/about-us/governance/). The aims of the Diversity Policy are:

- to articulate the APN Property Group's commitment to diversity within the organisation at all levels (including employee level, senior executive level and Board level); and
- to provide a framework for establishing objectives and procedures which are designed to foster and promote diversity within APN Property Group. This includes placing obligations on APN Property Group and the Board to set objectives, measure against those objectives and disclose progress at appropriate intervals.

Gender Diversity Objectives

In accordance with its Diversity Policy, APN Property Group has set measureable objectives to achieve gender and other diversity, and has appointed the Compliance Officer to monitor compliance with those objectives and to report to the Board of APN Property Group at least annually.

For the financial year 2016/2017, APN Property Group has set the following measureable objectives for gender and other diversity:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;
- Mentoring support to be available to all staff;
- the Diversity Policy is available to all employees at all times; and
- all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

APN Property Group will report on the outcome of these measurable objectives each year.

For the financial year 2015/2016, APN Property Group set similar measureable objectives for gender and other diversity. These objectives and a report on the outcome are set out below:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.

  - The Board made one new appointment during the year. Mr Tony Young was appointed in December 2015 in accordance with the objective of transitioning to an independent Board. Mr Young was appointed following strong endorsement from a significant shareholder in APN. There were no changes to the Board of APN FM during the year.

- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.

  - There were three new senior management appointments in this financial year including the internal promotion of a female manager (33%).

- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible.
    - Thirteen new appointments were made during the year of which five (38%) were female;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit.
    - Flexible work arrangements have been agreed with a number of employees in relation to family balance, maternity needs and illness;
- the Diversity Policy is available to all employees at all times.
    - The policy was available on the APN's website and the Company's intranet site which is available to all staff at all times;
- all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.
    - Employees were reminded on each occasion of a new appointment.

Gender Diversity in APN Property Group

At the date of this report, the proportion of women in APN Property Group was:

- Board of APN Property Group Limited: nil
- Board of APN Funds Management Limited: 25%
- Senior Management of the APN Property Group: 33%
- All employees of APN Property Group: 39%

Sustainability

APN Property Group, including APN Funds Management Limited believes that the sustainability of the business is intrinsically linked to the successful management of its financial, social and environmental risks, obligations and opportunities. We believe those companies that adopt sustainable practices are more likely to generate better long term returns for investors.

This philosophy is embedded in the culture of the business and monitored to ensure critical business risks are carefully managed. This is evidenced in the following key objectives:

Our Investors

- Prioritise the interests of investors;
- Separate Boards operating independently of each other to manage conflicts between the interests of investors in APN PG and investors in the funds we manage;
- Strong focus on investment performance;
- Regular and meaningful communications to investors.

Our Community

- Significant value attributed to 'sustainability conscious' companies in the investment decision process of the APN managed 'real estate securities' funds;
- Bias to 'green' rated direct property investments and development opportunities;
- Corporate values ethos required of all staff - integrity, passion, respect, accountability and professionalism.

Our Staff

- Demanding recruitment standards;
- Attractive remuneration incentives for strong performance;
- Focus on diversity;
- Employee engagement in overall business performance, including regular staff briefings.

Our Governance

- Independent Board to manage the Responsible Entity of APN's managed funds;
- Strict compliance regime to ensure compliance with legislative framework overseen by independent Board Compliance Sub-Committee;
- Documented compliance programme and Company Policies to regulate compliance requirements;
- Annual compliance audits.

Compliance with ASX Guidelines

The Company complies with all of the ASX Corporate Governance Principles and Recommendations, including, as not specifically addressed above:

- That at each AGM, the external auditor attends and is available to answer questions from security holders relevant to the audit.
- That shareholders have the option to receive communications from, and send communications to, the entity and its security registry electronically.
- That the Board has reviewed the risk management framework during the financial year ended 30 June 2016.

except in relation to the following:

- Recommendation 2.1.(a).1-2, 2.3, 2.4, 2.5 – the Board should establish a nomination committee comprising at least 3 members, a majority of independent directors and chaired by an independent director, and should not be the same person as the CEO of the entity.
- Recommendations 4.1.(a).1-2 – the Board should establish an audit committee comprising at least 3 members, only non-executive directors, a majority of independent directors and chaired by an independent director, who is not a chair of the board.
- Recommendation 7.1.(a).1-2 – a majority of the Board should be independent directors and chaired by an independent director.
- Recommendation 8.1.(a).1-2 – the Board should establish a remuneration committee comprising at least 3 members, a majority of independent directors and chaired by an independent director

The Board has carefully considered its size and composition, together with the specialist knowledge of the property and property securities sector of its directors, and formed the view that based on its current composition, it has the necessary skills and motivation to ensure that the Company performs strongly, and there is sufficient accountability in the structure of the Board, to ensure the outcomes and objectives sought by the ASX Guidelines are achieved. The Board considers that this has been enhanced through the separation of the boards of APN and the Responsible Entity of the APN funds, APN FM.

Having regard for the size of the APN Group and separation of responsibilities between the Board of the Company and the independent board of APN FM, the Board considered that incorporating the audit and risk management and nomination and remuneration procedures into the function of the Board has been an appropriate way of addressing the accountability and efficiencies sought to be achieved by the ASX Guidelines.

However given the current objective of transitioning to an independent board and the recent appointment of an additional director, the Board now intends to establish a separate Nomination & Remuneration sub-committee and Audit sub-committee in accordance with ASX Guidelines.

Deloitte.

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

22 August 2016

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 statements of APN Property Group Limited for the financial year ended 30 June 2016, 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

Melbourne, 22 August 2016

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of APN Property Group Limited, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 64.

Directors' Responsibility for the Financial Report

The directors of the company 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Property Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of APN Property Group Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 14 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion the Remuneration Report of APN Property Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 22 August 2016

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
Executive Chairman

22 August 2016

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Continuing operations			
Revenue	5	19,881	28,489
Cost of sales		(2,503)	(3,078)
Net revenue		17,378	25,411
Finance income	6	1,274	401
Administration expenses		(12,099)	(13,715)
Fair value adjustments and business acquisition costs	7	4,505	6,217
Finance costs	6	(1,242)	(246)
Profit before tax		9,816	18,068
Income tax expense	8	(2,530)	(3,108)
Profit for the year from continuing operations		**7,286**	**14,960**
Discontinued operations			
Profit / (Loss) for the year from discontinued operations	9	47,461	(121)
Profit for the year		**54,747**	**14,839**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translating foreign operations	18	97	37
Other comprehensive income for the year (net of income tax)		97	37
Total comprehensive income for the year		**54,844**	**14,876**
Profit/(Loss) attributable to:			
Equity holders of the parent		49,670	12,565
Non-controlling interests		5,077	2,274
		54,747	14,839
Total comprehensive income/ (loss) attributable to:			
Equity holders of the parent		49,767	12,602
Non-controlling interests		5,077	2,274
		54,844	14,876
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)	15	16.96	5.65
Diluted (cents per share)	15	16.60	5.58
From continuing operations			
Basic (cents per share)	15	2.40	5.70
Diluted (cents per share)	15	2.38	5.63

Notes to the financial statements are included on pages 32 to 64.

Consolidated statement of financial position at 30 June 2016

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	23	72,031	20,343
Trade and other receivables	24	6,855	9,576
Financial assets – held for sale	10	62,990	–
Total current assets		141,876	29,919
Non-current assets			
Investment in joint venture		1	2
Financial assets	10	43,924	65,603
Trade and other receivables	24	6,000	87
Property, plant and equipment	12	173	1,788
Investment properties	13	38,050	–
Deferred tax assets	8	–	4,821
Intangible assets	11	1,760	4,052
Total non-current assets		89,908	76,353
Total assets		231,784	106,272
Current liabilities			
Trade and other payables	25	39,365	2,993
Borrowings	16	36,408	–
Current tax liabilities	8	5,606	250
Provisions	26	4,279	2,408
Total current liabilities		85,658	5,651
Non-current liabilities			
Trade and other payables	25	3,447	–
Provisions	26	1,443	1,343
Deferred tax liabilities	8	4,249	2,887
Total non-current liabilities		9,139	4,230
Total liabilities		94,797	9,881
Net assets		136,987	96,391
Equity			
Issued capital	17	102,566	101,832
Reserves	18	3,545	1,111
Retained earnings		30,940	(12,362)
Equity attributable to equity holders of the parent		137,051	90,581
Non-controlling interests		(64)	5,810
Total equity		136,987	96,391

Notes to the financial statements are included on pages 32 to 64.

Consolidated statement of changes in equity for the year ended 30 June 2016

	Share capital $'000	Retained earnings $'000	Equity-settled employee benefits reserve $'000	Foreign currency translation reserve $'000	Total Attributable to equity holders of the parent $'000	Non-Controlling Interests $'000	Total $'000
Balance at 1 July 2014	**72,703**	**(22,164)**	**2,387**	**(1,694)**	**51,232**	**3,571**	**54,803**
Profit for the year	–	12,565	–	–	12,565	2,274	14,839
Translation of foreign subsidiary company	–	–	–	37	37	–	37
	–	**12,565**	–	37	**12,602**	**2,274**	**14,876**
Payments of dividends:							
– Equity holders of the parent (note 14)	–	(2,763)	–	–	(2,763)	–	(2,763)
– Non-controlling interest	–	–	–	–	–	(35)	(35)
Share options exercised by employees	3	–	–	–	3	–	3
Issue of shares	30,000	–	–	–	30,000	–	30,000
Transaction costs (net of deferred tax)	(874)	–	–	–	(874)	–	(874)
Recognition of share based payments	–	–	381	–	381	–	381
Balance at 30 June 2015	**101,832**	**(12,362)**	**2,768**	**(1,657)**	**90,581**	**5,810**	**96,391**
Profit for the year	–	49,670	–	–	49,670	5,077	54,747
Translation of foreign subsidiary company	–	–	–	97	97	–	97
	–	**49,670**	**–**	**97**	**49,767**	**5,077**	**54,844**
Payments of dividends:							
– Equity holders of the parent (note 14)	–	(4,657)	–	–	(4,657)	–	(4,657)
– Non-controlling interest	–	–	–	–	–	(4,350)	(4,350)
De-recognition of non-controlling interest arising on disposal of subsidiaries	–	–	–	–	–	(6,601)	(6,601)
Share options exercised by employees	2	–	–	–	2	–	2
Issue of ordinary shares under employee share gift plan	43	–	(43)	–	–	–	–
Issue of shares	701	–	–	–	701	–	701
Transaction costs (net of deferred tax)	(12)	–	–	–	(12)	–	(12)
Recognition of share based payments	–	–	669	–	669	–	669
Transfer to retained earnings relating to divested foreign operations	–	(1,711)	–	1,711	–	–	–
Balance at 30 June 2016	**102,566**	**30,940**	**3,394**	**151**	**137,051**	**(64)**	**136,987**

Notes to the financial statements are included on pages 32 to 64.

Consolidated statement of cash flows for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		22,571	24,454
Payments to suppliers and employees		(12,398)	(15,695)
Interest received		1,201	477
Distributions received		4,403	2,765
Interest and other costs of finance paid		(1,409)	(247)
Income taxes paid		(2,551)	(2,108)
Net cash provided by operating activities	23	11,817	9,646
Cash flows from investing activities			
Payment for investment		(18,306)	(16,996)
Payments for property, plant and equipment		(83)	(1,646)
Payments for investment properties		(30,282)	−
Proceeds on sale of investments		1,948	3,687
Deposits paid on behalf of new funds		−	(1,365)
Net cash inflow on disposal of subsidiary	30	58,243	−
Net cash provided by investing activities		11,520	(16,320)
Cash flows from financing activities			
Proceeds from issue of equity securities		703	30,003
Payments for share issue costs		(17)	(1,249)
Proceeds from / (repayments of) borrowings		36,575	(5,000)
Dividends paid:			
− Equity holders of the parent	14	(4,657)	(2,763)
− Non-controlling interests		(4,350)	(35)
Net cash provided by financing activities		28,254	20,956
Net increase/(decrease) in cash and cash equivalents		51,591	14,282
Net effect of foreign exchange translations		97	27
Cash and cash equivalents at the beginning of the financial year		20,343	6,034
Cash and cash equivalents at the end of the financial year	23	72,031	20,343

Notes to the financial statements are included on pages 32 to 64.

Contents

About this Report

1. General information

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

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

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

2. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

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

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 22 August 2016.

2.1 Basis of preparation

The 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 value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australian dollars, unless otherwise noted.

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

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements) – refer note 29 for a list of controlled entities (subsidiaries) as at year end. Control is achieved where the Company:

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

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

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

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

2. Statement of compliance (cont'd)

2.3 Foreign currencies

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

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

Exchange differences arising from the above are recognised in the profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur (therefore forming part of the net investment in a foreign subsidiary), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

2.4 Other accounting policies

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

2.5 The notes to the financial statements

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

Note	Description
Note 8 – Income taxes	Deferred tax assets and deferred taxation on investment properties
Note 11 – Intangible assets	Impairment of management rights
Note 13 – Investment properties	Fair value measurement and valuation processes
Note 20 – Financial risk management	Valuation of Level 3 financial instruments

Performance

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

4. Segment Information

4.1 Operating Segments

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

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

Reportable segments	Product type	Fund
Continuing operations		
▪ 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 Unlisted Property Fund ▪ APN Asian REIT Fund
▪ Industrial Real Estate fund	Listed property trust	▪ Industria REIT (IDR)
▪ Direct Real Estate funds	Fixed term Australian funds	▪ APN Property Plus Portfolio ▪ APN Regional Property Fund ▪ Newmark APN Auburn Property Fund ▪ APN Coburg North Retail Fund ▪ APN Steller Development Fund ▪ APN 541 St Kilda Road Fund (terminated)
	Wholesale funds	▪ APN Development Fund No.2
▪ Investment revenue	Investment income received or receivable from co-investments (i)	
Discontinued operations		
▪ Healthcare Real Estate fund	Listed property trust	▪ Generation Healthcare REIT (GHC)
▪ European Real Estate funds	De-listed property trust and fixed term European funds	▪ APN Champion Retail Fund ▪ APN Euro Property Fund ▪ APN European Retail Property Group ▪ APN Poland Retail Fund (terminated)

(i) Excludes the Group's co-investment stake in GHC.

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

4. Segment Information (cont'd)

4.2 Segment revenues and results

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

	Segment revenue Year ended		Segment net revenue[i] Year ended		Segment profit Year ended	
	30 June 2016 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2015 $'000
Continuing operations						
Real estate securities funds	10,953	10,819	8,858	8,219	3,693	2,982
Industrial real estate fund	2,386	2,250	2,386	2,250	883	906
Direct real estate funds	3,755	4,212	3,347	3,894	1,939	2,657
Investment revenue	2,787	1,531	2,787	1,531	2,787	1,531
	19,881	18,812	17,378	15,894	9,302	8,076
Unallocated revenue and expenses						
Finance income					1,274	401
Central administration					(3,862)	(3,463)
Depreciation and amortisation					(159)	(112)
Finance costs					(1,242)	(246)
Share of joint venture					(2)	(2)
	19,881	18,812	17,378	15,894	5,311	4,654
Income tax expense					(1,559)	(1,397)
Net operating earnings after tax & Non-controlling interests (NCI)					**3,752**	**3,257**
Pretax fair value adjustments / business acquisition costs					4,505	(1,183)
Income tax expense					(971)	692
					3,534	(491)
Total revenue, net revenue and profit after tax and NCI from continuing operations	**19,881**	**18,812**	**17,378**	**15,894**	**7,286**	**2,766**
Discontinued operations						
European real estate funds	259	248	259	248	(84)	–
Healthcare real estate fund(ii)	18,934	9,677	16,137	9,517	13,843	7,197
Income tax expense					(4,321)	(2,247)
Non-controlling interests					(2,828)	(1,394)
					6,610	3,556
Pretax fair value adjustments / gain on disposal of co-investments					16,581	7,400
Gain on disposal of subsidiaries (note 30)					31,592	–
Income tax expense					(10,150)	(277)
Non-controlling interests					(2,249)	(880)
					42,384	9,799
Total	**39,074**	**28,737**	**33,774**	**25,659**	**49,670**	**12,565**

(i) Segment net revenue is segment revenue less direct costs.
(ii) This segment was discontinued during the period on the disposal of subsidiaries as disclosed in note 30.

The revenue reported above includes revenue generated from related parties of $38,449,000 (2015: $28,631,000) and revenue from external parties of $625,000 (2015: $106,000). This represents the analysis of the Group's revenue from its major products. Related parties transactions are disclosed in note 31. There were no intersegment sales during the period.

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

For the period ended 30 June 2016, discontinued operations included doubtful debts recovered of $nil (2015: $85,000).

4. Segment Information (cont'd)

4.3 Segments assets and liabilities

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

4.4 Geographical information

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

4.5 Information about major customers

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

Revenue from major customers	2016 $'000	2015 $'000
Customer A included in revenue from Real estate securities funds	8,019	7,323
Customer B included in revenue from Healthcare real estate fund	18,934	9,677
Customer C included in revenue from Industrial real estate fund	4,987	3,630

5. Revenue

An analysis of the Group's revenue from continuing operations for the year is outlined below. The Group's revenue from continuing operations for 2015 included revenue from the Healthcare real estate fund. This operating was reclassified as a discontinued operation in the current period following its sale on 27 June 2016 (refer note 9).

	2016 $'000	2015 $'000
Fund management fees	12,963	14,530
Performance and transaction fees	1,007	6,724
Asset and project management fees	77	1,413
Rental income from investment properties	570	–
Registry and other income	2,477	2,412
	17,094	25,079
Distribution income – related parties (i)	2,787	3,410
	19,881	28,489

(i) 'Distribution income – related parties' is from financial assets classified as at fair value through profit or loss. See note 4.2 for an analysis of revenue by major products.

<u>Recognition and measurement</u>

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

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

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

6. Financing income and costs

Continuing operations	2016 $'000	2015 $'000
6.1 Finance income:-		
Bank deposits	277	379
Coupon interest associated with investment property	997	–
Other	–	22
	1,274	401
6.2 Finance costs:-		
Loan	(972)	(225)
Related party loan (note 28)	(261)	–
Bank charges	(9)	(21)
	(1,242)	(246)

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	2016 $'000	2015 $'000
Profit/(Loss) for the year has been arrived after (charging)/crediting the following:		
(a) Gains and losses and other expenses:-		
Depreciation of property, plant and equipment and software assets	(159)	(112)
Employee benefits expenses:		
Salaries and wages	(5,807)	(7,085)
Superannuation contributions	(442)	(507)
Equity-settled share based payment transactions	(623)	(381)
Provision for long service and annual leave	(32)	(93)
Termination benefits	(7)	(28)
Operating lease expense	(958)	(1,253)
Loss on disposal of property, plant and equipment	–	(13)
Doubtful debts recovered/(allowance)	–	38
Net foreign exchange gain/(losses)	1	12
Share of loss of joint ventures	(2)	(2)
Direct operating expenses incurred from income generating investment properties	(15)	–
(b) Impairment, fair value adjustments and business acquisition costs:-		
Change in fair value of financial assets designated as at fair value through profit or loss	4,406	6,217
Change in fair value of investment properties – unrealised (note 13)	524	–
Business development / acquisition costs	(425)	–

Recognition and measurement

Depreciation: Refer note 12 for details on the Groups accounting policy for depreciation.

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

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

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

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

8. Income taxes

8.1 Income tax recognised in profit or loss

	2016 $'000	2015 $'000
Tax (expense)/income comprises:		
Current tax (expense)/income	(8,177)	(1,058)
Adjustments recognised in the current year in relation to prior years	(93)	(4)
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	(8,731)	(2,167)
Total tax (expense)/income	(17,001)	(3,229)
Attributable to:		
Continuing operations	(2,530)	(3,108)
Discontinued operations	(14,471)	(121)
	(17,001)	(3,229)

The expense for the year can be reconciled to the accounting profit as follows:		
Profit/(Loss) from operations	77,672	18,068
Income tax (expense) / benefit calculated at 30%	(23,302)	(5,420)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(17)	(36)
Effect of income that is exempt from income tax	9,923	29
Effect of unused tax losses not recognised as deferred tax assets	(26)	(54)
Effect of expenses that are not deductible in determining taxable profit	(807)	(423)
Effect of previously unrecognised and unused capital losses now recognised as deferred tax assets	(2,679)	2,679
	(16,908)	(3,225)
Adjustments recognised in the current year in relation to the current tax of prior years	(93)	(4)
	(17,001)	(3,229)

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

For subsidiaries incorporated in other jurisdictions, the tax rate used in the above reconciliation is the corporate tax rate of 20% (2015: 20%) payable by subsidiaries incorporated in United Kingdom and 17% (2015: 17%) payable by the subsidiary incorporated in Singapore.

8.2 Income tax recognised directly in equity

During the year, deferred tax assets of $5,000 (2015: $375,000) arising from capital raising costs were recognised directly to equity.

8.3 Current tax assets and liabilities

	2016 $'000	2015 $'000
Current tax assets / (liabilities)		
Income tax attributable to:		
Entities in the tax-consolidated group	(5,606)	–
Other	–	(250)
	(5,606)	(250)

8.4 Deferred tax balances

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

8. Income taxes (cont'd)

8.4 Deferred tax balances (cont'd)

2015 Temporary differences	Opening balance $'000	Recognised in profit and loss $'000	Recognised directly in equity $'000	Closing balance $'000
Provisions and accruals	1,652	(477)	–	1,175
Property, plant and equipment	46	(11)	–	35
Capital raising costs recognised directly in equity	209	(120)	375	464
Intangible assets	–	(510)	–	(510)
Unrealised gains on revaluation of investments	(231)	(17)	–	(248)
Unused tax losses recognised	2,050	(1,032)	–	1,018
Net deferred tax assets / (liabilities)	3,726	(2,167)	375	1,934

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

	2016 $'000	2015 $'000
Deferred tax assets	–	4,821
Deferred tax liabilities	(4,249)	(2,887)
Net deferred tax assets/(liabilities)	(4,249)	1,934

8.5 Unrecognised deferred tax assets at the reporting date

	2016 $'000	2015 $'000
Revenue tax losses	218	186
Capital tax losses	–	1,274
	218	1,460

The amounts disclosed in the table above have not been recognised because:-

(a) The revenue in nature losses have not been recognised due to uncertainty over future taxable profits in the respective subsidiaries.

(b) The capital in nature losses have not been recognised as there is no foreseeable capital profits to offset the capital losses.

<u>Recognition and measurement</u>

Current tax

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

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

Deferred tax

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

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

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

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

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

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

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

8. Income taxes (cont'd)

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.

Key estimate – Recognition of Deferred Tax Assets
The Group has carried forward revenue and capital tax losses, the on-going recognition of which requires an estimation of the future taxable profits at each reporting date. The Group has estimated its future taxable profits against which these losses can be utilised, to determine the revenue and capital losses to be recognised as at the reporting date. Note 8.4 and 8.5 present the recognised and unrecognised revenue / capital tax losses respectively.

8.6 Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is APN Property Group Limited. The members of the tax-consolidated group are identified at note 29.

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

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

9. Discontinued operations

On 27 June 2016 the Group divested its interest in Generation Healthcare Management Pty Limited (GHM) and its controlled entity, and entered into a put/call option to sell substantially all its co-investment stake in Generation Healthcare REIT. Accordingly the Healthcare real estate fund segment and the associate co-investment in Generation Healthcare REIT have been classified as a discontinued operation.

European real estate funds segment continues to be wound down during the year, with only the APN Champion Retail Fund assets unsold at balance date. It is anticipated that it will take a number of years to complete this process.

9.1 Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. Healthcare real estate fund segment, Healthcare co-investment stake and European real estate funds) included in the profit for the financial year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

Profit for the financial year from discontinued operations	2016 $'000	2015 $'000
Revenue	19,193	9,925
Direct Expenses	(2,797)	(160)
	16,396	9,765
Expenses	(2,637)	(2,653)
Doubtful debts recovered	–	85
Profit before tax	13,759	7,197
Attributable income tax expense	(4,321)	(2,247)
	9,438	4,950
Gain from fair value adjustment of co-investment stake	16,438	7,400
Gain on disposal of co-investment stake	143	–
Gain on disposal of subsidiaries (note 30)	31,592	–
Attributable income tax expense	(10,150)	(277)
	38,023	7,123
Profit after tax for the financial year from discontinued operations	47,461	12,073
Attributable to:		
- equity holders of the parent	42,384	9,799
- non-controlling interests	5,077	2,274
Cash flows from discontinued operations		
Net cash flow from operation activities	402	2,459
Net cash flow from investing activities	3,893	(4,622)
Net cash flow from financing activities	(4,375)	2,294
Net cash inflows/(outflows)	(80)	131

Capital Investment

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

10. Financial assets

	2016 $'000	2015 $'000
Financial assets carried at fair value through profit and loss – Co-investments in related parties(i):		
Current assets – Financial assets held for sale (ii)	62,990	–
Non-current assets – Financial assets	43,924	65,603
	106,914	65,603

(i) Co-Investments in related parties with carrying amount of $49,312,000 (2015: $Nil) have been pledged to secure borrowings of the Group (note 16).

(ii) In conjunction with the divestment of Generation Healthcare Management Pty Ltd (note 30), the Group has entered into a put / call option deed over 26,719,378 Generation Healthcare REIT (GHC) units at $2.20 per unit, exercisable at any time before 30 September 2016. Total consideration receivable under the put / call option deed is $58,783,000.

Recognition and measurement

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

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

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

11. Intangible assets

	Management rights $'000	Software $'000	Software work-in -progress $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2014	4,127	640	122	4,889
Additions	–	3	–	3
Transfer	–	122	(122)	–
Derecognised during the year (i)	(174)	–	–	(174)
Balance at 30 June 2015	3,953	765	–	4,718
Additions	–	3	–	3
Write-off	–	(313)	–	(313)
Derecognised during the year (i)	(2,253)	–	–	(2,253)
Balance at 30 June 2016	1,700	455	–	2,155
Accumulated amortisation / impairment losses				
Balance at 1 July 2014	(174)	(636)	–	(810)
Depreciation expense	–	(30)	–	(30)
Derecognised during the year	174	–	–	174
Balance at 30 June 2015	–	(666)	–	(666)
Depreciation expense	–	(42)	–	(42)
Write-off	–	313	–	313
Balance at 30 June 2016	–	(395)	–	(395)
Net book value				
As at 30 June 2015	3,953	99	–	4,052
As at 30 June 2016	1,700	60	–	1,760

(i) The Group derecognised management rights totalling $2,253,000 following their divestment as part of the Healthcare real estate fund management disposal (note 30) (2015: $174,000 with its Asian business as no future benefits are expected).

11. Intangible assets (cont'd)

11.1 Management Rights impairment assessment

During the year the Group assessed the recoverable amount of management rights associated with the Group's management of Industria REIT of $1,700,000 (2015: $1,700,000). No impairment adjustment was recorded in the current year (2015: $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 – 7 years. The estimated useful life and amortisation method is reviewed at the end of each reporting period, with any changes being recognised as a change in accounting estimate.

Software assets arising from development are recognised if all the following have been demonstrated:
- the technical feasibility of completing the software assets so that they will be available for use;
- the intention and ability (including the availability of sufficient resources) to complete the software assets and use them;
- how the software assets will generate future economic benefits; and
- the ability to measure reliably the expenditure attributable to the software assets during its development.

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

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

Impairment

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

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

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

Derecognition

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

Key estimates and assumptions – Impairment of Management Rights
The determination of the value in use of the cash generating unit of Industria REIT (2015: Industria REIT and Generation Healthcare REIT) are subject to a number of key estimates and assumptions. The 5 year cashflow forecasts are based on past experiences, general market conditions and are consistent with management's plans. The key estimates and assumptions applied to these forecast cashflows to determine value in use is set out below:

	Generation Healthcare REIT		Industria REIT	
	2016	2015	2016	2015
Discount rate (post tax)	–	10.9%	10.1%	10.9%
Growth rate beyond 5 year plan	–	2.1%	1.8%	2.1%
Head room as percentage of the CGU's net carrying amount	–	71.4%	68.9%	75.0%

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

12. Property, plant and equipment

	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Capital work-in -progress $'000	Property under construction $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2014	423	1,216	181	–	1,820
Additions	3	64	–	1,577	1,644
Transfers	–	181	(181)	–	–
Write-off / Disposal	–	(17)	–	–	(17)
Balance at 30 June 2015	426	1,444	–	1,577	3,447
Additions		80	–	–	80
Transfer to Investment Properties (note 13)	–	–	–	(1,577)	(1,577)
Write-off / Disposal	(69)	(775)	–	–	(844)
Balance at 30 June 2016	357	749	–	–	1,106
Accumulated amortisation / impairment losses					
Balance at 1 July 2014	(423)	(1,157)	–	–	(1,580)
Depreciation expense	(1)	(80)	–	–	(81)
Write-off / Disposal	–	2	–	–	2
Balance at 30 June 2015	(424)	(1,235)	–	–	(1,659)
Depreciation expense	(1)	(117)	–	–	(118)
Write-off / Disposal	69	775	–	–	844
Balance at 30 June 2016	(356)	(577)	–	–	(933)
Net book value					
As at 30 June 2015	2	209	–	1,577	1,788
As at 30 June 2016	1	172	–	–	173

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 – 11 years. Leasehold improvements are depreciated on a straight line basis over the period of the lease or estimated useful life of 4 – 5 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.

Property under construction
Property under construction is stated at cost, including transaction costs. Subsequent to initial recognition, property under construction continues to be measured at cost until it is possible to reliably determine its fair value, at which point it is restated to fair value.

On completion, Property under construction is reclassified to Investment Property and held at fair value, with any resultant gains/losses being recognised in the profit and loss in the period in which they arise.

Impairment

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

Derecognition

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

13. Investment properties

	Investment property (c)	Investment property under construction	Carrying amount Total
	$'000	$'000	$'000
Balance at 1 July 2015	–	–	–
Transfer from property, plant and equipment (note 12)	1,577	–	1,577
Additions	–	35,897	35,897
Transfers	35,897	(35,897)	–
Straight line lease revenue recognition	52	–	52
Change in fair value – unrealised (note 7)	524	–	524
Balance at 30 June 2016	38,050	–	38,050

13.1 Individual valuation and carrying amounts

		Latest external valuations			
Commercial property(i)	Ownership interest	Valuation $'000	Date	Capitalisation rate	Discount rate
126A, River Hills Road, Eagleby, QLD (ii)	100%	4,600	Jun 16	6.25%	–
Part of Lot1, 190-198 Princes Highway, South Nowra, NSW (ii)	100%	6,250	Jun 16	6.00%	–
Part of Lot1, 190-198 Princes Highway, South Nowra, NSW (ii)	100%	3,000	Jun 16	5.50%	–
Lot 2, 190-198 Princes Highway, South Nowra, NSW (ii)	100%	24,200	Jun 16	7.00%	8.00%
Total		38,050			

(i) Current use equates to the highest and best use.

(ii) The above investment properties have been pledged (first ranking mortgages) to secure borrowings of the Group (note 16).

13.2 Lease as lessor

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

	Less than 1 year $'000	1-5 years $'000	Longer than 5 years $'000	Total $'000
2016				
Non-cancellable operating lease commitments:				
Lease receivable	2,369	13,293	25,140	40,801

Recognition and measurement

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

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value and all applicable regulations (Corporations Act, ASIC) and relevant Accounting Standards are complied with. The Group's investment properties are independently valued on a periodic basis by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued.

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

Derecognition

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

13. Investment Properties (cont'd)

Key estimates and assumptions – Fair value measurements and valuation process

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

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

Fair value hierarchy	Fair value at 30 June 2016 $'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2016
Level 3	38,050	DCF and income capitalisation method	Net passing rent - $/sqm	$40 - $200
			Net market rent - $/sqm	$40 - $200
			Adopted capitalisation rate	5.25% -7.25%
			Adopted discount rate	7.75% - 8.25%
			Adopted terminal yield	7.25% - 7.75%

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

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

Sensitivity analysis

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

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

13. Investment Properties (cont'd)

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

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

Capital Structure, Financing and Risk Management

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

14. Dividends

Fully paid ordinary shares	2016 Cent per share	2016 Total $'000	2015 Cent per share	2015 Total $'000
Recognised amounts:				
Interim dividend: Fully franked at a 30% tax rate	1.25	3,902	1.25	2,763
Unrecognised amounts				
Final dividend: Fully franked at a 30% tax rate	0.50	1,570	0.25	755
Special dividend: Fully franked at 30% tax rate	10.00	31,399	–	–

The directors have declared a fully franked final dividend of 0.50 cents per share and a fully franked special dividend of 10.00 cents per share for the year ended 30 June 2016 (2015: 1.25 cents per share, fully franked). This will be paid on 18 October 2016 to all shareholders registered on 29 September 2016.

	Company 2016 $'000	Company 2015 $'000
Adjusted franking account balance	10,820	1,563
Impact on franking account balance of dividends not recognised	(14,130)	(324)
	(3,310)	1,239

15. Earnings per share

	2016	2015
Basic earnings per share (cents per share)		
From continuing operations	2.40	5.70
From discontinued operations	14.56	(0.05)
	16.96	5.65
Diluted earnings per share (cents per share)		
From continuing operations	2.38	5.63
From discontinued operations	14.22	(0.05)
	16.60	5.58

15.1 Basic earnings per share

	2016 $'000	2015 $'000
The earnings used in the calculation of basic earnings per share is as follows:		
Profit for the year attributable to equity holders of the parent	49,670	12,565
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(42,384)	109
Adjustments to exclude treasury share dividends paid where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests	(295)	(142)
Earnings used in the calculation of basic EPS from continuing operations	6,991	12,532

15.2 Diluted earnings per share

	2016 $'000	2015 $'000
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	6,991	12,532
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	91	29
Earnings used in the calculation of diluted EPS from continuing operations	7,082	12,561

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

	2016 '000	2015 '000
Basic EPS - Weighted average number of ordinary shares used in the calculation	**291,204**	**219,953**
Shares deemed to be issued for no consideration in respect of employee options	6,758	3,217
Diluted EPS - Weighted average number of ordinary shares used in the calculation	**297,962**	**223,170**
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	14,594	9,079

16. Borrowings

	2016 $'000	2015 $'000
Current financial liabilities: Secured – at amortised costs		
Secured bank loans (i)	21,575	–
Unamortised borrowing costs	(167)	–
Secured bank loans (ii)	15,000	–
	36,408	–
Total facilities available:		
Secured bank loans	40,825	–
Business card facility	200	200
Bank guarantee	500	500
	41,525	700
Facilities utilised at balance date:		
Secured bank loans	36,575	–
Business card facility	173	185
Bank guarantee	500	500
	37,248	685
Facilities not utilised at balance date:		
Secured bank loans	4,250	–
Business card facility	27	15
Bank guarantee	–	–
	4,277	15

During the period, the Group entered into the following loans:-

(i) Secured bill acceptance/discount facilities:-

Facility 1: On 27 October 2015, APN Convenience Retail Property Fund (CRPF), a wholly owned subsidiary of the Group, entered into a 3 year $3,097,000 bill acceptance/discount facility secured against 126A, River Hills Road, Eagleby, QLD (refer note 13 for details). This facility is fully drawn as at 30 June 2016 and is subject to the following financial covenants:

- Loan to value ratio will not exceed 70% (reducing to 65% with quarterly principle repayment over three years) of the market value of the secured investment property; and
- Interest cover ratio will not fall below 2.0 times

Facility 2: On 6 November 2015, CRPF entered into a 3 year $22,750,000 bill acceptance/discount facility secured against Lots 1 and 2, 190-198 Princess Highway, South Nowra, NSW (refer note 13 for details). This facility is drawn to $18,500,000 as at 30 June 2016 and is subject to the following financial covenants:

Construction facility:

- Loan to development cost ration will not exceed 75% of the development costs of the secured property under construction; and
- Loan to value ratio will not exceed 70% of the market value of the secured investment property.

Term facility (effective form construction completion):

- Loan to value ratio will not exceed 70% (reducing to 65% with quarterly principal repayment over the remaining term to maturity) of the market value of the secured investment property; and
- Interest cover ratio will not fall below 2.0 times

(ii) The weighted average effective interest rate on the bank loan is 5.35% per annum. $15,000,000 was fully drawn at reporting date and is repayable on 31 May 2017. The bank loan is secured by other financial assets with carrying amount of $49,312,000 (refer note 10 for details) and is subject to the following financial ratios:

- The loan to value ratio under the bank loan will not fall below 35% of the market value of the other financial assets pledged as security; and
- The distribution cover ratio will not fall below 2.0 times.

(iii) Unsecured loans with a total aggregate limit of $10,000,000 (including $5,000,000 from a related party) were established and fully drawn during the year before being fully repaid in June 2016. These loans incurred interest at 8.0% per annum for the first 6 months and 10.0% per annum thereafter. The interest charged during the period is disclosed as related party transaction in note 31.

Recognition and measurement

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

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

17. Issued capital

	Number of shares '000	$'000
Balance at 1 July 2014	**215,824**	**72,703**
Share issue	81,080	30,000
Share issue transaction costs	–	(1,249)
Income tax benefit relating to transaction costs	–	375
Share options exercised by employees	–	3
Share option buy-back under the APN Property Group Employee Share Plan	(64)	–
Issue of shares under the APN Employee Performance Securities Plan	5,250	–
Balance at 30 June 2015	**302,090**	**101,832**
Dividend reinvestment plan	1,791	701
Share issue transaction costs	–	(17)
Income tax benefit relating to transaction costs	–	5
Share options exercised by employees	–	2
Share issue under Employee Share Gift Plan	112	43
Issue of shares under the APN Employee Performance Securities Plan	10,000	–
Balance at 30 June 2016	**313,993**	**102,566**

The nature of the Group's issued capital

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

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

- During the year, the Company issued 1,791,000 new shares at 39 cents per share pursuant to the dividend reinvestment plan (2015: 81,080,470 new shares at 37 cents per share pursuant to a placement and entitlement offer).
- During the year, there were no shares cancelled under the APN Property Group Employee Share Plan. (2015: 64,000)
- In November 2015, the Company issued 112,000 shares to eligible employees under the APN Property Group Employee Share Gift Plan (2015: nil).
- During the year, 10,000,000 shares were issued to key management personnel under the APN Employee Performance Securities Plan (EPSP).

At 30 June 2016, fully paid ordinary shares of 313,992,812 (2015: 302,090,435) included 21,294,267 (2015: 11,296,108) treasury shares relating to Employee Share Plans.

18. Reserves

	Equity compensation reserve		Foreign currency translation reserve		Total	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance at beginning of financial year	2,768	2,387	(1,657)	(1,694)	1,111	693
Share-based payment	669	381	–	–	669	381
Transfer to retained earnings relating to divested foreign operations	–	–	1,711	–	1,711	–
Issue of ordinary shares under employee share gift plan	(43)	–	–	–	(43)	–
Translation of foreign operations	–	–	97	37	97	37
Balance at end of financial year	3,394	2,768	151	(1,657)	3,545	1,111

The nature and purpose of reserves

Equity compensation reserve

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

Foreign currency translation reserve

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

19. Capital management

The Group aims to meet its strategic objectives and operational requirements and to maximise its returns to shareholders through the appropriate use of debt, equity, reserves and retained earnings (i.e. capital) while noting the additional risks of debt. In determining the optimal capital structure, the Group considers a range of factors including its diversified income sources, operating cost structure, commitments, market conditions and the overall level of debt compared to its gross assets. The Group's overall strategy remains unchanged from 2015.

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

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

At 30 June 2016 the gearing ratio, calculated as debt to shareholders equity, was 26.6% (2015: nil). This is calculated as follows:

	2016 $'000	2015 $'000
Debt (short term borrowings (note 16)	36,408	–
Equity (includes share capital, reserves and retained earnings)	136,987	96,391
Debt to equity ratio	26.6%	–

20. Financial risk management

20.1 Financial risk management objectives

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

20.2 Market risk

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

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

20.3 Equity price risk

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

The exposure to equity price risk at the end of the reporting period, assuming equity prices had been 10% higher or lower while all other variables were held constant, would increase/decrease net profit by $10,691,000 (2015: $6,560,000).

20. Financial risk management (cont'd)

20.4 Liquidity risk management

The Board has approved a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate liquid asset reserves, continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

At 30 June 2016, the Group's banking facilities are disclosed in note 16.

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

	Weighted average effective interest rate %	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5+ years $'000	Total $'000
2016						
Non-interest bearing – trade and other payables	–	39,365	3,447	–	–	42,812
2015						
Non-interest bearing – trade and other payables	–	2,993	–	–	–	2,993

20.5 Credit risk management

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

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

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

Cash and cash equivalents and deposits are limited to high quality financial institutions. Investments are allowed only in liquid securities and only with counterparties that have a sound credit rating. The Group uses publicly available financial information and its own trading records to rate its non-related party and related party customers.

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

20.6 Interest rate risk management

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

For the purposes of managing interest rate risk, the Group may enter into interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. At 30 June 2016 there are no interest rate swaps in place (2015: N/A).

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 possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 30 June 2016 would increase/decrease by $177,000.

20. Financial risk management (cont'd)

20.7 Fair value of financial instruments

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

For financial instruments that are measured and carried at fair value, the Group uses the following to categorise the method used:

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

Key estimates and assumptions – Valuation of Level 3 financial instruments
Management estimates and assumptions are required to determine the fair value of investments in unlisted funds. In determining the fair value of such investments, the latest available prices (net tangible asset values) provided by the product issuer is the primary source of information used.

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

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

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

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

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

Financial assets at fair value through profit or loss	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Co-investment in related parties	100,781	–	6,133	106,914
2015				
Co-investment in related parties	64,456	–	1,147	65,603

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

Fair value through profit or loss	2016 $'000	2015 $'000
Balance at beginning of financial year	1,147	4,871
Total gains/(losses) recognised in profit or loss (note 7)	(61)	(109)
Purchases	5,047	72
Settlements	–	(3,687)
Balance at end of financial year	6,133	1,147

21. Commitments

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

	Less than 1 year $'000	1-5 years $'000	Longer than 5 years $'000	Total $'000
2016				
At call investment commitments:				
Investment commitments to APN Development Fund No.2	381	–	–	381
Non-cancellable operating lease commitments:				
Property lease	1,015	1,056	–	2,071
	1,396	1,056	–	2,452
2015				
Capital expenditure commitments:				
Property plant and equipment	2,848	–	–	2,848
At call investment commitments:				
Investment commitments to APN Development Fund No.2	678	–	–	678
Non-cancellable operating lease commitments:				
Property lease	1,070	2,125	–	3,195
	4,596	2,125	–	6,721

22. Contingents assets and liabilities

22.1 Contingent assets

The Group provides leasing services to its managed funds and was entitled to charge market based fees amounting to $517,000 (2015: $325,000). While APN Fund Management Limited remains the responsible entity of the relevant managed fund, these fees will not be charged.

Performance entitlements from APN Development Fund No.2

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

At 30 June 2016, the ability to earn a performance entitlement is possible, but not probable, as 'A' class unit holders have not received an IRR greater than 14% on total committed capital. Accordingly no asset has been recognised in the financial statements.

22.2 Contingent liabilities

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

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

Efficiency of Operation

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

23. Cash and cash equivalents

	2016 $'000	2015 $'000
Reconciliation of cash and cash equivalent		
Cash and bank balances available to the Group	48,841	20,192
Consideration received in cash but payable to non-controlling interest (note 30)	21,995	–
Cash balances held in trust for its managed funds	1,195	151
Total cash and cash equivalents	72,031	20,343
Reconciliation of profit after tax to net cash flows from operating activities		
Profit / (loss) for the year	54,747	14,839
Add / (less) non-cash items:		
Share of loss from joint ventures	2	2
(Gain) on disposal of subsidiaries	(31,592)	–
Depreciation and amortisation	159	112
Property, plant and equipment written off	–	13
(Gain) on disposal of co-investments	(143)	–
Provision for employee benefits	1,246	1,513
Provision for leases	(321)	214
Doubtful debts (recovery) / expense	–	(123)
Equity-settled share based payment transactions	669	381
(Gain)/loss on revaluation of investment	(20,681)	(6,216)
	4,086	10,735
(Increase) / decrease in trade receivables	(11,312)	(872)
(Increase) / decrease in other debtors	2,792	(17)
(Increase) / decrease in accrued income and prepayments	(814)	(771)
(Increase) / decrease in deferred tax assets	12,123	2,167
(Decrease) / increase in provisions	1,057	(669)
(Decrease) / increase in payables	1,559	120
(Decrease) / increase in provision for income tax	2,326	(1,047)
	11,817	9,646

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

Recognition and measurement

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

Application and redemption monies held by the Group pending issue / redemption of units in its managed investment schemes ('Schemes') are held in trust for the sole benefit of Scheme investors and cannot be used for any other purpose by the Group.

24. Trade and other receivables

	2016 $'000	2015 $'000
Current financial assets		
Trade receivables	2,777	3,163
Allowance for doubtful debts (a)	–	–
	2,777	3,163
Consideration receivable from disposal of subsidiaries (note 30)	162	–
Accrued interest and distribution income	3,400	4,379
Prepayments	469	1,832
Other	47	202
Current trade and other receivables	6,855	9,576
Non-Current financial assets		
Deferred consideration receivable from disposal of subsidiaries (note 30)	5,995	–
Loan to related parties	5	1,980
Allowance for doubtful debts (a)	–	(1,893)
	6,000	87

24. Trade and other receivables (cont'd)

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

	Trade receivable: Doubtful debts allowance		Loan to related party: Doubtful debts allowance	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance at beginning of the year	–	(1,291)	(1,893)	(1,893)
Impairment losses reversed	–	123	–	–
Impairment losses written-off	–	1,167	1,893	–
Foreign currency exchange differences	–	1	–	–
Balance at end of the year	–	–	–	(1,893)

(b) Trade receivables past due but not impaired:

	2016 $'000	2015 $'000
31 – 60 days	225	42
61 – 90 days	–	–
91 – 120 days	2	–
+ 121 days	–	–
	227	42

Recognition and measurement

Trade receivables

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

Loans

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

Impairment

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

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

25. Trade and other payables

	2016 $'000	2015 $'000
Current financial liabilities		
Trade payables	1,639	1,174
Other creditors and accruals	7,030	1,819
Consideration payable to non-controlling shareholders of disposed subsidiaries (note 30)	30,696	–
	39,365	2,993
Non-Current financial liabilities		
Deferred consideration payable to non-controlling interest of disposed subsidiaries (note 30)	3,447	–
	3,447	–

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

26. Provisions

	2016 $'000	2015 $'000
Current liabilities		
Employee benefits	2,097	2,098
Onerous contracts (i)	2,009	191
Other	173	119
	4,279	2,408
Non-Current liabilities		
Employee benefits	851	872
Lease incentives (ii)	354	471
Other	238	–
	1,443	1,343

	Onerous contracts		Employee benefits	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance at beginning of the year	191	276	2,970	1,870
Addition during the year	2,009	–	1,465	1,577
Payment during the year	(191)	(85)	(1,487)	(478)
Net foreign currency exchange differences	–	–	–	1
Balance at end of the year	2,009	191	2,948	2,970

(i) The net unavoidable cost of APN Funds Management Limited remaining as responsible entity of Generation Healthcare REIT for up to 2 years and 2 months. (2015: The unexpired term of the operating leases was less than 3 years relating to Singapore operation.

(ii) This relates to rental expense representing the straight lining of fixed rental expense increases over the lease term.

Recognition and measurement

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

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

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

Lease incentives
The provision for lease incentives represents the unamortised balance of incentives received to enter into an operating lease. The incentive received is recognised as a reduction of rental expense on a straight-line basis over the term of the operating lease.

Other Notes

27. Share-based payments

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

Recognition and measurement

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

27.1 Additional information on share based incentive plans

APN Employee Performance Securities Plan (EPSP)

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

No EPSP share options were issued in the current year (2015: nil). At 30 June 2016, the fair value of the share options issued and included in the equity compensation reserve is $1,714,857 (2015: $1,091,621).

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.

There were no shares cancelled during the year (2015: 64,000). At 30 June 2016, the fair value of all existing share options issued and included in equity compensation reserve was $1,188,378 (2015: $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 2016, the fair value of share options issued and included in the equity compensation reserve was $104,000 (2015: $104,000). The shares are fully vested and can be exercised at any time.

Miles Wentworth and Chris Adams (MWCA)

The last issue under the MWCA plan was in August 2011. The shares were issued as a sign-on incentive as part of the Group's acquisition of 67.5% of the Generation Healthcare REIT management business. The issue price of the shares was fully financed by limited recourse loans provided by the Group. Dividends are for the benefit of the individuals. The individuals are not permitted to deal in the shares until the limited recourse loan has been repaid. Shares issued under the MWCA plan are characterised as share options. Following the divestment of the Generation Healthcare REIT business and Miles Wentworth and Chris Adams ceasing to be employees of APN, the limited recourse loans were due and payable as at 30 June 2016, with repayment being received on 1 July 2016.

At 30 June 2016, the fair value of the share options issued and included in equity compensation reserve is $nil (2015: $nil).

APN Employee Share Gift Plan (ESGP)

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

At 30 June 2016, $43,000 (2015: $nil) has been recognised as employee expenses and included in the equity compensation reserve.

27. Share-based payments (cont'd)

27.2 Share option arrangements

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

Options series	Plan	Number	Grant date	Exercise price	Fair value per option at grant date
(1) 10 September 2004	CAST	3,900,001	10.09.2004	$0.31	$0.01
(2) 20 June 2005	ESS	162,000	20.06.2005	$1.00	$0.01
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.01
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.30
(3) 28 February 2006	ESS	250,000	28.02.2006	$1.95	$0.45
(5) 23 November 2007	ESS	270,000	23.11.2007	$2.87	$0.78
(5) 23 November 2007	ESS	20,000	23.11.2007	$2.87	$0.92
(10) 12 August 2011	MWCA	1,000,000	12.08.2011	$0.20	$0.14
(11) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.08
(12) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.12
(13) 8 May 2014	EPSP	5,000,000	08.05.2014	$0.26	$0.14
(14) 8 May 2014	EPSP	250,000	08.05.2014	$0.30	$0.08

All share options are fully vested and can be exercised at any time.

27.3 Fair value of share options granted in the year

There were no share options granted during the year. 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%
10	$0.14	$0.20	84.3%	5 years	–	5.16%
11	$0.26	$0.26	59.8%	2 years	–	2.16%
12	$0.26	$0.26	83.6%	4 years	4.81%	2.98%
13	$0.26	$0.26	91.0%	6 years	4.81%	3.45%
14	$0.26	$0.30	62.0%	2 years	–	2.71%

27.4 Movements in share options and balance outstanding

	2016		2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	21,296,107	$0.39	21,361,884	$0.24
Granted during the financial year	–	–	–	–
Forfeited during the financial year	–	–	(64,000)	$2.10
Exercised during the financial year	(1,840)	$1.00	(1,777)	$1.00
Balance at end of the financial year	21,294,267	$0.39	21,296,107	$0.39
Exercisable at end of the financial year (i)	21,294,267	$0.39	11,296,108	$0.48

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

There are no unvested share options as at 30 June 2016 (2015: Unvested share options have a weighted average remaining contractual life of 1,095 days). Vested share options with limited recourse loans outstanding have no maturity date and thus have an indefinite contractual life.

27. Share-based payments (cont'd)

27.5 Share options exercised during the year

Options series	Number exercised	Exercise date	Share price at exercise date
2016			
(2) 20 June 2005	1,533	12 April 2016	$0.40
(2) 20 June 2005	307	16 August 2016	$0.40
2015			
(2) 20 June 2005	1,777	14 April 2015	$0.40

28. Key management personnel compensation

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

	2016 $	2015 $
Short-term employee benefits	1,669,795	1,685,630
Post-employment benefits	77,119	75,544
Other long-term benefits	31,251	19,906
Share-based payment	625,236	381,075
	2,403,401	2,162,155

29. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
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 Funds Management (UK) Limited (APN FM(UK)) (vii)	United Kingdom	–	100%
APN European Management Limited (IoM) (iii)	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))	Singapore	100%	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%
Generation Healthcare Custodian Pty Limited (v)	Australia	–	100%
Generation Healthcare Management Pty Limited (GHM) (v)	Australia	–	67.5%
Generation Healthcare Management (Hurstville) Pty Ltd (GHMH) (iv) (v)	Australia	–	67.5%
Generation Healthcare Custodian (Casey) Pty Ltd (vi) (v)	Australia	–	–
APN Euro Property Fund (EPF)	Australia	69.75%	69.75%
APN Asset Services Pty Ltd (iii)	Australia	100%	100%
Industria Company No.2 Pty Ltd (iii)	Australia	100%	100%
APN Convenience Retail Property Fund (CRPF) (iii)	Australia	100%	100%

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

(i) APN PG is the head entity within the tax-consolidated group.
(ii) APN PG was incorporated on 1 July 2004. On 10 September 2004, APN PG acquired APN DD and APN FM. Due to the reverse acquisition accounting treatment, APN FM is deemed to be the accounting parent.
(iii) These companies are members of the tax-consolidated group.
(iv) A company 100% owned by GHM, the effective ownership interest of the Group is 67.5%.
(v) These companies were disposed on 27 June 2016 (note 30).
(vi) The company was incorporated on 23 October 2015.
(vii) The company dissolved with effect from 26 April 2016.

29. Subsidiaries (cont'd)

29.2 Change in the Group's ownership interest in a subsidiary

On 27 June 2016, the Group disposed of 100% of its interest in Generation Healthcare Management Pty Limited and Generation Healthcare (Hurstville) Pty Ltd. The proceeds on disposal are disclosed in note 30. An amount of $6,601,000 (being the proportionate share of the carrying amount of the net assets of Generation Healthcare Management Pty Limited and Generation Healthcare (Hurstville) Pty Ltd) has been transferred from non-controlling interest.

30. Disposal of subsidiaries

On 27 June 2016, the Group divested Generation Healthcare Management Pty Limited and its subsidiary as part of the disposal of the Group's Healthcare real estate fund management operations.

30.1 Consideration received

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

30.2 Analysis of assets and liabilities over which control was lost

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

30.3 Gain on disposal

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

30.4 Net cash flow

	2016 $'000
Consideration received in cash	58,245
Less: cash and cash equivalents divested	(2)
	58,243

30. Disposal of Subsidiaries

Recognition and measurement

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

31. Related party transactions

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

31.1 Transactions with key management personnel

(a) Loans to management personnel

There were no loans to management personnel as at 30 June 2016 (2015: $nil).

(b) Other transactions with key management personnel:

Loans to the Company by key management personnel

During the year, Holus Nominee Pty Ltd ATF The Aylward Family Trust, an entity controlled by the Group's Executive Chairman, Christopher Aylward, provided a $5,000,000 unsecured loan to the Company at an interest rate of 8.0% per annum for the first 6 months and 10.0% per annum thereafter. The total interest paid was $260,753. The loan was fully repaid on 20 June 2016.

Key management personnel equity holdings in a fund the Group manages

In the year ended 30 June 2015, the Company rebated performance fees of $101,971 that were crystallised on termination of the APN 541 St Kilda Road Fund to Holus Nominee Pty Ltd ATF The Aylward Family Trust, an entity controlled by the Group's Executive Chairman, Christopher Aylward, which held 2,728,410 Class B units in the APN 541 St Kilda Road Fund.

31.2 Equity interests and transactions with related parties

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

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

	Parent		Subsidiaries		Total	
	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $
Subsidiaries						
Dividends	34,018,281	10,072,700	2,401,801	1,555,362	36,420,082	11,628,062
Transfer of investment units (i)	37,492,033	–	–	–	37,492,033	–
Finance income (ii)	213,038	84,032	–	–	213,038	84,032
Other related parties from continuing operations						
Fund management fees	–	–	12,942,816	14,489,628	12,942,816	14,489,628
Performance and transaction fees	–	–	970,588	6,696,555	970,588	6,696,555
Asset and project management fees	–	–	76,280	1,413,442	76,280	1,413,442
Registry and other income	–	900	2,458,794	2,397,139	2,458,794	2,398,039
Distribution income	2,786,764	1,936,051	50	1,474,289	2,786,814	3,410,340
Finance income (iii)	–	–	–	95,924	–	95,924
Other related parties from discontinued operations						
Management fees	–	–	2,748,777	223,758	2,748,777	223,758
Performance and transaction fees	–	–	10,967,496	–	10,967,496	–
Asset and project management fees	–	–	3,028,755	–	3,028,755	–
Distribution income	513,760	–	1,934,129	–	2,447,889	–

31. Related party transactions (cont'd)

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

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

	Parent		Subsidiaries		Total	
	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $
Subsidiaries						
Loan receivable (ii)	–	4,066,615	–	–	–	4,066,615
Trade receivables (iv)	–	–	239,267	239,267	239,267	239,267
Other related parties						
Trade receivables	–	–	2,532,725	3,149,915	2,532,725	3,149,915
Reversal/(provision) for doubtful debts	–	11,718	–	110,686	–	122,404
Loan receivables (v)	–	1,893,343	–	–	–	1,893,343

(i) During the year, the Company paid $37,492,033 to acquire 17,041,833 units at an average price of $2.20 per unit in Generation Healthcare REIT from its subsidiaries (2015: Nil).
(ii) The loan receivable from GHM is secured against the assets of the entity. The weighted average effective interest rate on loan was 5.81% (2015: 5.71%). This loan is for working capital funding and was repaid in full during the year.
(iii) In 2015, the management fees from a related party were settled in 2014 and while unpaid were subject to interest at 6%.
(iv) The Company has agreed to extend financial support, in the ordinary course of operations, to APN Euro Property Fund to March 2018. The financial support includes the deferral of collections of fees and costs due and payable and future fees and costs to the Group.
(v) The loan receivable from APN European Retail Property Group has been fully impaired in prior years and has been written off during the year.

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

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

Investments

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

	2016			2015		
	Units	Fair value	Distribution received/ receivable	Units	Fair value	Distribution received/ receivable
	No.	$	$	No.	$	$
APN Property for Income Fund	107	208	13	107	208	13
APN Property for Income Fund No. 2	64	107	4	64	107	4
APN Property Plus Portfolio Fund	1,294,852	2,230,383	108,444	–	–	–
APN Direct Property Fund	–	–	–	–	–	152
APN European Retail Property Group	46,366	–	–	46,366	–	–
APN Development Fund No. 2	2,380,952	1,238,095	–	2,083,333	1,145,833	–
Generation Healthcare REIT	28,631,778	62,989,915	2,447,889	26,367,681	43,111,158	1,879,309
APN Asian REIT Fund	657,031	1,088,044	76,578	604,411	981,020	47,463
APN AREIT Fund	90,720	165,655	–	82,372	128,961	–
APN Asia Pacific REIT Fund	9,161	100	–	9,161	100	–
APN 541 St Kilda Road Fund	–	–	–	–	–	84,678
Industria REIT	17,068,109	36,525,753	2,601,738	10,938,179	20,235,631	1,380,053
Newmark APN Auburn Property Fund	1,350,000	–	–	1,350,000	–	–
APN Coburg North Retail Fund	479	479	36	479	479	18,667
APN Steller Development Fund	2,750,000	2,664,200	–	–	–	–

32. Remuneration of auditors

	2016 $	2015 $
Auditor of the parent entity		
Audit or review of the financial report	145,000	150,640
Tax advice (i)	–	–
Other services (ii)	8,987	79,340
Other auditors		
Audit or review of the financial report of subsidiaries	–	8,017
Preparation of the tax return of subsidiaries	4,084	4,344
	158,071	242,341

(i) The tax advice in prior year was in relation to advice on intangible assets and tax group consolidation.
(ii) Other services include fees in relation to the audit and compliance audit and tax advice provided to funds that have been incurred by the Group (2015: Other services include fees in relation to the audit and compliance audit and tax advice provided to funds that have been incurred by the Group).

The auditor of the Group is Deloitte Touche Tohmatsu.

33. Parent entity information

	Company	
	2016 $	2015 $
Financial position at 30 June 2016		
Current assets	156,554	36,991
Non-current assets	47,544	55,996
Total assets	204,098	92,987
Current liabilities	69,981	11,831
Non-current liabilities	1,443	1,238
Total liabilities	71,424	13,069
Issued capital	122,335	121,600
Retained earnings	6,945	(44,450)
Equity compensation reserve	3,394	2,768
Total equity	132,674	79,918
Financial performance for the year ended 30 June 2016		
Profit/(Loss) for the year	56,053	6,422
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	56,053	6,422

Guarantees, Contingent Liabilities and Contractual Commitments

Other than the financial guarantee provided to APN Euro Property Fund as disclosed in note 31, there is no other guarantees' entered into in relation to debts of its subsidiaries and no contingent liabilities required to be disclosed during the year.

As at the end of the reporting period the Company had no contractual commitments outstanding (2015: $2,848,000).

Parent entity financial information

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

34. Subsequent events

On 8 August 2016, Northwest exercised its call option under the put and call option deed signed on 27 June 2016 to purchase 26,719,378 units at $2.20 per unit in Generation Healthcare REIT (GHC). Settlement is scheduled for 23 August 2016.

On 11 August 2016, APN announced that it had executed a contract for the sale of 7-Eleven Eagleby, Queensland for $4.85 million, a 9.6% premium to its 2015 purchase price of $4.425 million. Settlement is scheduled for November 2016 (subject to standard settlement terms) with the net proceeds to be applied to the repayment of debt facilities.

35. Adoption of new and revised Accounting Standards

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

All of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period have been adopted. Their adoption has not had any significant impact on the amounts reported in the financial statements but may affect the accounting for future transactions or arrangements. New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

Standard	
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

Standards and Interpretations in issue not yet adopted

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
▪ AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
▪ AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
▪ AASB 16 'Leases'	1 January 2019	30 June 2020
▪ AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
▪ AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
▪ AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
▪ AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
▪ AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'.	1 January 2016	30 June 2017
▪ AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
▪ AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
▪ AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
▪ AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Clarifications to IFRS 15 'Revenue from Contracts with Customers	1 January 2018	30 June 2019