Aveo Group

(Comprising Aveo Group Limited ABN 28 010 729 950 and its controlled entities and
Aveo Group Trust ARSN 099 648 754 and its controlled entities)

Appendix 4D and Financial Report for the half-year ended 31 December 2016

This half-year financial report constitutes the Appendix 4D prepared in accordance with the Australian Securities Exchange Listing Rules and the half-year financial report in accordance with the *Corporations Act 2001*. This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Aveo Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Aveo Group

Aveo Group ('Group') is a stapled group consisting of Aveo Group Limited ('Parent') ABN 28 010 729 950 and its controlled entities and Aveo Group Trust ARSN 099 648 754, the Responsible Entity of which is Aveo Funds Management Limited ABN 17 089 800 082, and its controlled entities ('Trust Group').

Appendix 4D

for the half-year ended 31 December 2016

(previous corresponding period being the half-year ended 31 December 2015)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Profit after tax	**$m**	**up/down**	**% movement**
Revenue	196.3	down	30.9
Profit after tax attributable to stapled security holders	121.2	up	82.3

Dividend/distribution information	**Total dividends & distributions**	**Distribution per unit**	**Dividend per share**	**Franked amount per share**
Interim dividend/distribution	-	-	-	-
Previous corresponding period	-	-	-	-

There were no dividends/distributions proposed or declared by the Group to stapled security holders since the end of the previous financial period.

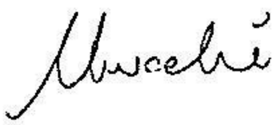
The Group's Dividend/Distribution Reinvestment Plan ('DRP') remains suspended.

Additional information	**31 Dec 2016**	**30 Jun 2016**
Net tangible assets ('NTA') per stapled security[1]	$3.23	$3.00

1. Attributable to stapled security holders, excluding non-controlling interests.

Commentary on the results for the period can be found in the attached 31 December 2016 half-year Directors' Report.

Additional Appendix 4D disclosure requirements can be found in the attached notes to the 31 December 2016 Half-Year Consolidated Financial Statements.



Nicole Moodie
Company Secretary

Sydney
15 February 2017

Aveo Group
December 2016 Half-Year Financial Report

Table of Contents

The Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited, the Responsible Entity of Aveo Group Trust, present their report together with the financial reports of the Group and of the Trust for the half-year ended 31 December 2016 and the Auditor's Report thereon. The financial report of the Group comprises the consolidated financial report of Aveo Group Limited ('Parent') and its controlled entities including Aveo Group Trust ('Trust') and its controlled entities ('Trust Group'). The financial report of the Trust comprises the consolidated financial report of the Trust Group.

DIRECTORS

The Directors of Aveo Group Limited and of Aveo Funds Management Limited during the half-year and up until the date of this report are as follows:

Director	Position	Period of Directorship
Current Directors		
S H Lee	Non-Executive Chairman	Full half-year
J E F Frayne	Non-Executive Director	Full half-year
E L Lee	Non-Executive Director	Full half-year
W L McDonald	Non-Executive Director	Full half-year
D P J Saw	Non-Executive Director	Appointed 16 Nov 2016
G E Grady	Executive Director & Chief Executive Officer	Full half-year
Former Directors		
L R McKinnon	Non-Executive Director	Resigned 16 Nov 2016
S B Muggleton	Non-Executive Director	Resigned 31 Aug 2016
Alternate Directors		
G D Shaw	Alternate Director for S H Lee & E L Lee	Appointed 2 Dec 2016
W Chow	Alternate Director for S H Lee & E L Lee	Resigned 2 Dec 2016

REVIEW AND RESULTS OF OPERATIONS

Overview

The Group has recorded a strong beginning to the financial year. Underlying profit after tax of was $53.9 million, an increase of 18% on the previous corresponding half-year, driven by a lift in earnings across all retirement businesses. The strong performance of the core Aveo retirement business was assisted by additional earnings contributions from the Freedom and Retirement Villages Group (*RVG*) acquisitions.

Total retirement sales were a record 621 units, a result which was augmented by a strong lift in average deferred management fee & capital gain (*DMF/CG*) amount per transaction to $97,800. Portfolio turnover, at 10.3%, was within the Group's target range of 10% to 12%. There were 58 new retirement units delivered during the half-year.

The RVG and Freedom portfolios are performing in line with the acquisition assumptions and have been successfully integrated. This allows management to focus on extracting value from the additional growth opportunities available in these two portfolios.

REVIEW AND RESULTS OF OPERATIONS (continued)

Financial results

Key financial headlines of the Group's 31 December 2016 results are:

- statutory profit after tax increased 82% from a profit of $66.5 million to a profit of $121.2 million;
- underlying profit after tax and non-controlling interest[1] was $53.9 million, up 18%;
- earnings per stapled security (*EPS*) on underlying profit after tax and non-controlling interest increased 7% to 9.5 cents;
- funds from operations (*FFO*) was $82.8 million compared to $89.5 million for the previous period;
- FFO per security was 14.4 cents compared to 17.4 cents for the previous half-year; and
- net tangible assets per stapled security was $3.23, up 8% from 30 June 2016.

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited.

Statutory profit after tax nearly doubled to $121.2 million, whilst underlying profit increased by a smaller increment of 18% to $53.9 million. Underlying EPS still increased by 7% despite the impact of the additional equity raised to fund the RVG and Freedom acquisitions. The NTA per security increase was driven by the statutory profit increase and the lack of any half year distribution. FFO has decreased by 7% largely driven by lower capitalised interest included in cost of goods sold.

Key reconciling items between the Group's statutory profit and underlying profit after tax are:

	For the half-year ended	
	31 Dec 2016 $m	31 Dec 2015 $m
Underlying profit after tax and non-controlling interest	53.9	45.6
Change in fair value of retirement investment properties	22.9	2.5
Change in fair value of other investment properties	3.2	12.3
Gain on acquisition of RVG	52.6	-
Deferred tax asset derecognised	(8.9)	-
Share of non-operating loss of equity-accounted investments	-	(1.9)
Gain from sale of Non-Retirement asset	-	5.0
Other	(2.5)	3.0
Net profit after tax attributable to stapled securityholders of the Group	**121.2**	**66.5**

In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-cash or non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result. Underlying profit has not been audited.

The Retirement asset valuation increase was in part the result of improved contract terms beginning to be recognised across the portfolio. The Gasworks (other investment properties) valuation increase was in line with a new external valuation.

REVIEW AND RESULTS OF OPERATIONS (continued)

Key divisional contributions to the underlying performance of the Group included:

	For the half-year ended		Change
	31 Dec 2016	31 Dec 2015	
	$m	$m	$m
Retirement			
Established business	35.5	28.1	7.4
Development[1]	9.0	0.4	8.6
Care and support services	1.2	0.6	0.6
Total Retirement	**45.7**	**29.1**	**16.6**
Total Non-Retirement[1]	**31.0**	**37.1**	**(6.1)**
Group overheads and incentive scheme	(6.8)	(5.6)	(1.2)
EBITDA[2]	**69.9**	**60.6**	**9.3**
Depreciation and amortisation	(1.1)	(1.1)	-
EBIT[3]	**68.8**	**59.5**	**9.3**
Interest and borrowings expense	-	-	-
Income tax expense	(14.8)	(13.8)	(1.0)
Non-controlling interest	(0.1)	(0.1)	-
Underlying profit after tax and non-controlling interest	**53.9**	**45.6**	**8.3**

1. Includes capitalised interest in cost of goods sold.
2. EBITDA is earnings before interest, income tax, depreciation and amortisation.
3. EBIT is earnings before interest and income tax.

The Group's underlying profit after tax and non-controlling interest for the half-year was $53.9 million, up $8.3 million (18%) on the previous corresponding half-year.

The increase in Retirement profit is supported by the increase in contributions across all segments. The Retirement contribution as a proportion of divisional contribution has increased by 16% compared to the previous corresponding half-year.

Having achieved its interim goal of a return on assets (*ROA*) of 6.0% to 6.5% in FY16, with an actual result of 6.3%, the Retirement business remains on track to achieve its FY18 ROA target of 7.5% to 8.0%.

REVIEW AND RESULTS OF OPERATIONS (continued)

Retirement

	31 Dec 2016 $m	31 Dec 2015 $m	Change $m	%
Revenue				
Established business	90.7	58.6	32.1	55
Development	38.1	12.3	25.8	210
Care and support services	6.4	6.5	(0.1)	(2)
	135.2	**77.4**	**57.8**	**75**
EBITDA				
Established business	35.5	28.1	7.4	26
Development[1]	9.0	0.4	8.6	2,150
Care and support services	1.2	0.6	0.6	100
	45.7	**29.1**	**16.6**	**57**
Sales volumes	**Number**	**Number**	**Number**	**%**
Established business	513	324	189	58
Development	108	29	79	272
	621	**353**	**268**	**76**
Total value of units transacted	$232.3m	$105.1m	$127.2m	121

1. Development profits are accounted for in the change in fair value of retirement investment property.

Retirement EBITDA increased 57% to $45.7 million, driven by increases across all businesses and supported by additional earnings from the Freedom and RVG portfolios.

There was a record level of sales volumes, with development sales increasing as a proportion of total sales in line with increased delivery volumes.

The Established business result was driven by a combination of higher volumes and higher sales prices, whilst the Development result resulted from the delivery of 58 new retirement units and a contribution from the Freedom minor development units.

The Care and support services result was driven by tight cost controls across the aged care facilities.

REVIEW AND RESULTS OF OPERATIONS (continued)

Established Business

	31 Dec 2016 $m	31 Dec 2015 $m	Change $m	%
Revenue[1]				
Deferred management fee and capital gains ("DMF/CG")				
Resales	45.0	24.1	20.9	87
Operating buyback purchases	12.0	3.3	8.7	264
	57.0	27.4	29.6	108
Other revenue				
Buyback sales	24.3	12.5	11.8	94
RVG[1]	-	12.0	(12.0)	(100)
Other[2]	9.4	6.7	2.7	40
	33.7	31.2	2.5	8
	90.7	**58.6**	**32.1**	**55**
EBITDA				
Net DMF/CG[3]	53.5	24.4	29.1	119
Net buyback sales	2.7	0.9	1.8	200
Net RVG[1]	-	10.1	(10.1)	(100)
Net other income	9.4	6.7	2.7	40
Other expenses[4]	(30.1)	(14.0)	(16.1)	115
	35.5	**28.1**	**7.4**	**26**

1. HY16 results include share of profit of, and fees charged to RVG. HY17 revenue excludes these items but includes 100% of RVG revenue from 1 July 2016. Profit contribution is after allowing for minority's share of RVG results until 24 August 2016, when RVG became a wholly owned subsidiary.
2. Includes resident commissions and village administration fees.
3. Relates to resales and operating buyback purchases.
4. Includes marketing and other management expenses.

The improvement in the Established Business result was driven by increased DMF/CG revenue, with an improved performance in the original business supplemented by additional contributions from the RVG and Freedom assets.

Buyback sales revenues increased substantially as the higher levels of buyback stock acquired in previous periods as part of the active asset improvement program were sold back into the market.

RVG earnings were equity accounted until acquisition in August and then consolidated. The increase in other expenses reflects the impact of RVG's consolidated costs without an offsetting property service fee that was paid before acquisition. It was offset by a corresponding consolidation of RVG's revenue after acquisition.

The increase in other expenses reflect increases due to Freedom and RVG costs.

REVIEW AND RESULTS OF OPERATIONS (continued)

Established Business Sales and Margins

	31 Dec 2016 Number	31 Dec 2015 Number	Change Number	%
Sales volumes				
Resales	422	281	141	50
Buyback sales	91	43	48	112
	513	**324**	**189**	**58**
Recurring operating buyback purchases (units)	111	64	47	73
Freedom transition buyback purchases	50	-	50	na
DMF/CG generating transactions[1]	583	345	238	69
Deposits on hand	184	78	106	136
Average DMF/CG transaction price point	$350k	$278k	$72k	26
Average DMF/CG per transaction	$97.8k	$79.5k	$18.3k	23
DMF/CG margin per transaction:				
Resales	28%	30%	(2%)	-
Operating buyback purchases	27%	22%	5%	-
Portfolio turnover	10.3%	10.7%	(0.4%)	-
Occupancy[2]	93%	96%	-	-
Cumulative new Aveo Way contracts sold	1,327	317	1,010	319

1. Resales plus operating buyback purchases.
2. Excludes new units sold within the last five years.
3. Shown with a full six months contribution from RVG assets.

Sales volumes increased 58% to 513 units, whilst turnover remains within with the 10% to 12% target rate.

The significant increase in operating buyback purchases was to facilitate the planned introduction of the Freedom care model across ten Aveo villages.

The lift in average transaction price point was due to a combination of:

- continued price increases across the original Aveo portfolio; and
- the impact of the RVG villages which are located in higher value Sydney and Melbourne suburbs.

DMF margins were impacted by legacy RVG resident contracts that have inferior terms relative to the average Aveo contract. However, this will be improved over the longer term as the Aveo Way contracts are introduced into the RVG portfolio.

REVIEW AND RESULTS OF OPERATIONS (continued)

Development

	31 Dec 2016	31 Dec 2015	Change Amount	%
Revenue	$38.1m	$12.3m	$25.8m	210
EBITDA	$9.0m	$0.4m	$8.6m	2,150
Gross profit (including interest)	$12.3m	$1.2m	$11.1m	925
Gross profit (excluding interest)	$12.3m	$1.5m	$10.8m	720
Average margin (including interest)	32%	11%	21%	-
Average margin (excluding interest)	32%	14%	18%	-
Average transaction value	$444k	$424k	$20k	5
Number of major projects under development	9	5	4	80
Rredevelopment buyback purchases	74	30	44	147
Opening major units available	173	54	119	220
Add: units delivered	58	29	29	100
Less: units sold	(75)	(29)	(46)	159
Closing major units available	156	54	102	189
Opening minor units available	258	-	na	na
Add: units delivered	-	-	na	na
Less: units sold	(33)	-	na	na
Closing minor units available	225	-	na	na

Retirement Development successfully delivered 58 new units, with the targeted delivery of 34 units at Durack supplemented by the delivery of additional units at a former RVG joint venture village that was fully acquired in October.

More new units were sold than delivered in the period, as stock delivered at the end of FY16 was sold down.

The sale of 33 higher margin minor developments (legacy company owned Freedom stock) supplemented the profit contribution from delivery of traditional development units. The Group remains on track to sell down this legacy stock over a three to four year period, at a rate of about 70 units per annum.

Redevelopment buyback purchases increased as plans continue to progress at several redevelopment villages.

Construction programs for the delivery of the remaining 208 new units in FY17 remain on track:

Village	FY17 Delivery 1H	2H	Timing	Total	Progress
Clayfield	-	65	Q4	65	♦ Work on roof now commenced
Durack	34	-	-	34	♦ Delivered in Q2 FY17
Island Point	-	10	Q4	10	♦ Structural carpentry nearly completed
Mingarra	-	24	Q4	24	♦ Builder on site and on track
Peregian	-	32	Q4	32	♦ Builder on site and on track
Springfield	-	66	Q3	66	♦ Unit fitouts are underway
RVG	24	11	Q3-4	35	♦ Delivered in Q1-Q2 FY17 with additional units acquired from JV partner in October
Total major	58	208		266	
Minor	33	37		70	Being delivered progressively through the year
	91	245		336	

REVIEW AND RESULTS OF OPERATIONS (continued)

Planning is also significantly progressed for FY18, with the long stated target of 500 new retirement units by FY18 still on track for delivery. Construction has already commenced on the FY18 delivery projects at Newcastle (50 units), Newstead (199 units) and Southern Gateway (64 units). The remaining projects are in varying stages of progressing through the design finalisation and subsequent tender process.

Care and Support Services results

	31 Dec 2016	31 Dec 2015	Change	
	$m	$m	$m	%
Revenue				
Aged care	5.5	5.7	(0.2)	(4)
Allied health	0.5	0.1	0.4	400
Other	0.4	0.7	(0.3)	(43)
	6.4	**6.5**	**(0.1)**	**(2)**
EBITDA				
Aged care	1.1	0.5	0.6	120
Allied health	0.1	0.1		
	1.2	**0.6**	**0.6**	**100**

Aged care facilities remain the main profit contributor. Tight cost controls across the facilities helped lift the profit contribution in the period.

While the allied health businesses continue to provide a positive contribution, their main value remains strategic. They provide discounts to residents on health services, which provides a point of competitive differentiation, that in turn supports results in the Established Business.

Delivery of the new Durack aged care facility remains on track for final quarter of FY17. Display apartments within the facility will be ready by the end of February, which will allow pre-sales to commence to prospective residents. Construction of the Newstead integrated retirement community development has now commenced, which incorporates the next aged care facility, scheduled for delivery in FY18.

Non-Retirement

	31 Dec 2016	31 Dec 2015	Change	
			Amount	%
Sales revenue	$117.3m	$201.4m	($84.1m)	(42)
Rental income	$7.7m	$6.1m	$1.6m	26
Total revenue	$125.0m	$207.5m	($82.5m)	(40)
Gross profit	$33.0m	$38.5m	($5.5m)	(14)
EBITDA	$31.0m	$37.1m	($6.1m)	(16)
Land lot sales	309	380	(71)	(19)
Built product sales	12	257	(245)	(95)
Average margin	28%	19%	9%	-
Contracts on hand	545	611	(66)	(11)
Investment properties held	2	2	-	-

The lower profit contribution relative to HY16 was impacted by the settlement of units in The Milton residential apartment project in HY16. Land lot sales were impacted by the timing of various approvals that impacted settlements, with a skew to the second half expected as a result.

Land sales contracts on hand still remain high.

The Gasworks, Newstead, office and retail complex was independently valued at $166.8m as at 31 December 2016. The increase in value is not included in underlying profit but is included in statutory profit.

Capital management

Capital management metrics

	31 December 2016	30 June 2016
Reported Gearing[1]	16.6%	17.4%
Net debt	$469.0m	$431.3m
Gross interest bearing liabilities	$499.0m	$461.5m
Undrawn committed lines	$126.0m	$163.0m
Weighted average borrowing cost	3.2%	3.4%
Weighted average debt maturity	1.2 years	1.7 years

1. Measured as net debt divided by total assets net of cash and resident loans.

Indicative terms have been agreed with the Group's existing syndicated facility lenders regarding:

- extension of the term of the facility to July 2020; and
- an increase in total facility limits by $50.0 million to $607.5 million.

Other terms remain largely the same as the existing facility.

Upon completion of this refinancing:

- weighted average debt maturity will increase to approximately 3 years;
- undrawn committed lines will increase by $57.5 million; and
- there will be no debt maturity until March 2019.

The Group's debt remains unhedged. Recent falls in interest rates have reduced the weighted average cost of debt to 3.2% per annum.

Gearing at 16.6% remains within target range of 10% to 20%.

Since FY14, a net $267 million has been invested in the development of new retirement units. This has been primarily funded by a sell down in residential inventory stock, which has released $217 million in capital over the same period.

An investment of approximately $500 million is required to fund the development and sell down of 500 retirement units per annum. This requires a further $150 million of net capital investment from now through to FY18. The ongoing sell down of the remaining $227 million in residential inventory will provide a ready source of funding for this required capital.

Risk

There are a number of risks that could affect the Group's ability to achieve its staged goals of returns on retirement assets of 7.5% - 8.0% by FY18. These include:

- A downturn in the Australian property market could reduce growth in average transaction price points and consequently average DMF/CGs. This risk is partly mitigated by the Group's introduction of the improved Aveo Way contract terms.

- Such a downturn could also reduce the Groups' ability to sell its retirement and non-retirement developments. This risk could be partly mitigated by the Group reducing the rate of development.

- Development margins could be affected by construction delays and cost increases. Wherever possible, the Group controls this risk through fixed price contracts and by including early completion bonuses and/or late completion penalties in its construction contracts. The Group also carefully monitors development progress through regular management review.

- The Group may experience difficulties in executing its strategy to improve revenue from the Established Business by expanding the Freedom product offering to existing Aveo villages.

REVIEW AND RESULTS OF OPERATIONS (continued)

Outlook

Established Business

Sales remain in line with the long term 10% to 12% turnover target, which now equates to approximately 1,000 –1,200 units per annum. These strong sales results and low vacancy levels across the independent living unit portfolio provides further opportunities to continue lifting unit pricing.

This performance is allowing an increased focus on asset optimisation and improvement, which will assist to drive profit growth and value into the medium term.

The introduction of the Freedom care offering across ten selected Aveo communities, and the rollout of the Aveo Way contract across the RVG communities, are the first steps in implementing the growth opportunities available from the acquisition of the Freedom and RVG portfolios.

Development

The delivery of 208 new units is on track for second half of FY17, which will then complete the targeted 266 deliveries in FY17. Construction has already commenced on a number of development projects with FY18 delivery timelines.

Care and Support Services

The new Durack 123 bed aged care facility is on track to be delivered in the final quarter of FY17. This will be the first new co-located aged care facility developed and allow a full continuum of care for residents at Durack.

Financial

The Group is maintaining its FY17 guidance:

- underlying EPS of 18.3 cents per stapled security (*cps*), an increase of 7.6% on FY16 EPS of 17.0 cps; and
- targeting a full year distribution of 9 cps, up 13% from 8 cps in FY16.

The Group is targeting further EPS growth of 7.5% from FY17 to FY18.

It remains on track to achieve FY18 its Retirement return on asset target of 7.5% to 8.0%.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

We confirm that we have obtained the Auditor's Independence Declaration, which is set out on page 12.

ROUNDING

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that instrument, amounts in the Financial Report and Directors' Report are rounded to the nearest hundred thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

S H Lee
Chairman

G E Grady
Executive Director & Chief Executive Officer

Sydney
15 February 2017

200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust

As lead auditor for the review of Aveo Group Limited and the entities it controlled for the half-year ended 31 December 2016 and Aveo Group Trust and the entities it controlled for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Aveo Group Limited and the entities it controlled during the financial period and Aveo Group Trust and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Douglas Bain

Douglas Bain
Partner
15 February 2017

	Note	Group For the half-year ended		Trust Group For the half-year ended	
		31 Dec 2016 $m	31 Dec 2015 $m	31 Dec 2016 $m	31 Dec 2015 $m
Continuing operations					
Sale of goods		117.7	226.7	-	-
Revenue from rendering of services		74.3	46.2	0.2	-
Other revenue		4.3	11.1	8.1	10.3
Revenue		**196.3**	**284.0**	**8.3**	**10.3**
Cost of sales		(101.2)	(190.0)	-	-
Gross profit		**95.1**	**94.0**	**8.3**	**10.3**
Change in fair value of investment properties		177.1	34.7	-	-
Change in fair value of resident loans		(124.1)	(12.0)	-	-
Employee expenses		(24.2)	(15.6)	-	-
Marketing expenses		(10.3)	(6.2)	(0.6)	-
Occupancy expenses		(0.9)	(0.5)	-	-
Property expenses		(1.6)	(1.6)	-	-
Administration expenses		(8.4)	(3.8)	-	-
Net gain on business combination	13	52.6	-	-	-
Other expenses		(9.0)	(4.1)	(0.5)	(0.4)
Share of net (loss)/profit of associates and joint ventures accounted for using the equity method		(2.8)	4.4	(0.5)	(0.3)
Profit from continuing operations before income tax		**143.5**	**89.3**	**6.7**	**9.6**
Income tax expense	3	(24.1)	(23.3)	-	-
Profit for the half-year		**119.4**	**66.0**	**6.7**	**9.6**
Profit for the half-year is attributable to:					
Owners of Aveo Group Limited		114.5	56.9	-	-
Non-controlling interests - Owners of Aveo Group Trust		6.7	9.6	6.7	9.6
Net profit after tax attributable to stapled security holders of the Group		**121.2**	**66.5**	**6.7**	**9.6**
Other non-controlling interests		(1.8)	(0.5)	-	-
		119.4	**66.0**	**6.7**	**9.6**
Earnings per security (cents per security):					
Basic earnings per stapled security		21.4	12.9	1.2	1.9
Diluted earnings per stapled security		21.4	12.9	1.2	1.9
Earnings per security from continuing operations (cents per security):					
Basic earnings per stapled security		21.4	12.9	1.2	1.9
Diluted earnings per stapled security		21.4	12.9	1.2	1.9

The above consolidated income statements should be read in conjunction with the accompanying notes.

	Note	Group For the half-year ended		Trust Group For the half-year ended	
		31 Dec 2016 $m	31 Dec 2015 $m	31 Dec 2016 $m	31 Dec 2015 $m
Profit for the half-year		**119.4**	**66.0**	**6.7**	**9.6**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		0.1	(0.3)	-	0.5
Income tax on items of other comprehensive income		-	-	-	-
Other comprehensive income for the half-year, net of tax		**0.1**	**(0.3)**	**-**	**0.5**
Comprising:					
Other foreign currency translation differences		0.1	(0.3)	-	0.5
		0.1	(0.3)	-	0.5
Total comprehensive income for the half-year		**119.5**	**65.7**	**6.7**	**10.1**
Total comprehensive income for the half-year is attributable to:					
Owners of Aveo Group Limited		114.6	56.1	-	-
Non-controlling interests - Owners of Aveo Group Trust		6.7	10.1	6.7	10.1
Total comprehensive income for the half-year attributable to stapled security holders of the Group		**121.3**	**66.2**	**6.7**	**10.1**
Other non-controlling interests		(1.8)	(0.5)	-	-
		119.5	**65.7**	**6.7**	**10.1**

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

	Note	Group		Trust Group	
		31 Dec 2016 $m	30 Jun 2016 $m	31 Dec 2016 $m	30 Jun 2016 $m
Current assets					
Cash and cash equivalents		33.4	34.9	-	-
Trade and other receivables		52.0	102.0	1.1	0.8
Inventories	4	162.2	162.8	-	-
Derivative financial assets		-	0.4	-	-
Prepayments		4.8	2.4	-	-
Total current assets		**252.4**	**302.5**	**1.1**	**0.8**
Non-current assets					
Trade and other receivables		7.5	2.7	352.5	524.9
Inventories	4	64.5	112.5	-	-
Investment properties	5	5,311.9	3,330.8	229.1	89.0
Equity-accounted investments	6	27.0	301.8	13.2	13.6
Property, plant and equipment		56.9	23.7	18.3	0.1
Intangible assets		5.9	4.9	-	-
Other assets		11.3	10.0	37.1	-
Total non-current assets		**5,485.0**	**3,786.4**	**650.2**	**627.6**
TOTAL ASSETS		**5,737.4**	**4,088.9**	**651.3**	**628.4**
Current liabilities					
Trade and other payables	7	79.6	85.3	20.7	20.4
Interest-bearing loans and borrowings	12	404.4	0.1	-	-
Provisions		6.6	50.1	0.3	43.7
Derivative financial liabilities		-	0.4	-	-
Deferred revenue		166.6	115.4	-	-
Total current liabilities (excluding resident loans)		657.2	251.3	21.0	64.1
Resident loans		2,881.3	1,519.4	-	-
Total current liabilities		**3,538.5**	**1,770.7**	**21.0**	**64.1**
Non-current liabilities					
Trade and other payables	7	75.4	93.2	7.3	7.0
Interest-bearing loans and borrowings	12	99.3	461.9	23.7	-
Deferred tax liabilities		124.9	100.9	-	-
Provisions		1.8	1.8	-	-
Total non-current liabilities		**301.4**	**657.8**	**31.0**	**7.0**
TOTAL LIABILITIES		**3,839.9**	**2,428.5**	**52.0**	**71.1**
NET ASSETS		**1,897.5**	**1,660.4**	**599.3**	**557.3**
Equity					
Contributed equity	8	1,261.9	1,178.1	722.9	687.0
Reserves		(8.8)	(8.7)	2.3	2.9
Retained profits/(accumulated losses)		17.1	(97.4)	(127.2)	(133.9)
Total equity attributable to security holders		**1,270.2**	**1,072.0**	**598.0**	**556.0**
Non-controlling interests					
Aveo Group Trust		598.0	556.0	-	-
Other non-controlling interest		29.3	32.4	1.3	1.3
Total equity attributable to non-controlling interests		**627.3**	**588.4**	**1.3**	**1.3**
TOTAL EQUITY		**1,897.5**	**1,660.4**	**599.3**	**557.3**

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

	Note	Attributable to securityholders of Aveo Group Limited				Non-controlling interest attributable to Aveo Group Trust	Other non-controlling interests	Total equity
		Contributed equity $m	Reserves $m	(Accumulated losses)/ retained profits $m	Total $m	$m	$m	$m
Balance at 1 July 2015		1,122.0	(11.1)	(192.5)	918.4	553.3	33.9	1,505.6
Comprehensive income:								
Profit/(loss) for the period		-	-	56.9	56.9	9.6	(0.5)	66.0
Other comprehensive income		-	(0.8)	-	(0.8)	0.5	-	(0.3)
Total comprehensive income for the period		-	(0.8)	56.9	56.1	10.1	(0.5)	65.7
Transactions with owners in their capacity as owners:								
Transactions with non-controlling interests		-	1.4	-	1.4	-	(0.1)	1.3
Equity settled employee benefits		0.4	0.3	-	0.7	0.1	-	0.8
Acquisition of treasury securities	8	(1.4)	-	-	(1.4)	(0.6)	-	(2.0)
Securities bought back and cancelled	8	(0.4)	-	-	(0.4)	(0.2)	-	(0.6)
Total transactions with owners in their capacity as owners		(1.4)	1.7	-	0.3	(0.7)	(0.1)	(0.5)
Balance at 31 December 2015		**1,120.6**	**(10.2)**	**(135.6)**	**974.8**	**562.7**	**33.3**	**1,570.8**
Balance at 1 July 2016		1,178.1	(8.7)	(97.4)	1,072.0	556.0	32.4	1,660.4
Comprehensive income:								
Profit/(loss) for the period		-	-	114.5	114.5	6.7	(1.8)	119.4
Other comprehensive income		-	0.1	-	0.1	-	-	0.1
Total comprehensive income for the period		-	0.1	114.5	114.6	6.7	(1.8)	119.5
Transactions with owners in their capacity as owners:								
Transactions with non-controlling interests		-	0.6	-	0.6	-	(1.3)	(0.7)
Equity settled employee benefits	8	2.0	(0.8)	-	1.2	0.2	-	1.4
Issue of securities	8	89.3	-	-	89.3	38.3	-	127.6
Acquisition of treasury securities	8	(7.5)	-	-	(7.5)	(3.2)	-	(10.7)
Total transactions with owners in their capacity as owners		83.8	(0.2)	-	83.6	35.3	(1.3)	117.6
Balance at 31 December 2016		**1,261.9**	**(8.8)**	**17.1**	**1,270.2**	**598.0**	**29.3**	**1,897.5**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

	Note	Attributable to securityholders of Aveo Group Trust				Non-controlling interests	Total equity
		Contributed equity	Reserves	Accumulated losses	Total		
		$m	$m	$m	$m	$m	$m
Balance at 1 July 2015		663.0	1.6	(111.3)	553.3	1.3	554.6
Comprehensive income:							
Profit for the period		-	-	9.6	9.6	-	9.6
Other comprehensive income		-	0.5	-	0.5	-	0.5
Total comprehensive income for the period		-	0.5	9.6	10.1	-	10.1
Transactions with owners in their capacity as owners:							
Equity settled employee benefits	8	0.1	-	-	0.1	-	0.1
Acquisition of treasury securities	8	(0.6)	-	-	(0.6)	-	(0.6)
Securities bought back and cancelled	8	(0.2)	-	-	(0.2)	-	(0.2)
Total transactions with owners in their capacity as owners		(0.7)	-	-	(0.7)	-	(0.7)
Balance at 31 December 2015		**662.3**	**2.1**	**(101.7)**	**562.7**	**1.3**	**564.0**
Balance at 1 July 2016		687.0	2.9	(133.9)	556.0	1.3	557.3
Comprehensive income:							
Profit for the period		-	-	6.7	6.7	-	6.7
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		-	-	6.7	6.7	-	6.7
Transactions with owners in their capacity as owners:							
Equity settled employee benefits	8	0.8	(0.6)	-	0.2	-	0.2
Issue of securities	8	38.3	-	-	38.3	-	38.3
Acquisition of treasury securities	8	(3.2)	-	-	(3.2)	-	(3.2)
Total transactions with owners in their capacity as owners		35.9	(0.6)	-	35.3	-	35.3
Balance at 31 December 2016		**722.9**	**2.3**	**(127.2)**	**598.0**	**1.3**	**599.3**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

	Group For the half-year ended		Trust Group For the half-year ended	
	31 Dec 2016 $m	31 Dec 2015 $m	31 Dec 2016 $m	31 Dec 2015 $m
Cash flows from operating activities				
Receipts from customers	356.2	378.0	0.2	-
Payments to suppliers and employees	(192.5)	(102.2)	18.4	(0.4)
Interest received	0.5	0.8	(0.6)	-
Income tax (paid)/received	-	-	-	-
Finance costs including interest and other costs of finance paid	(8.0)	(6.7)	-	-
Dividends and distributions received	0.1	0.1	-	-
GST paid	(6.3)	(21.6)	(0.3)	-
Net cash flows from/(used in) operating activities	**150.0**	**248.4**	**17.7**	**(0.4)**
Cash flows from investing activities				
Payments for property, plant and equipment	(25.9)	(0.5)	-	-
Proceeds from sale of property, plant and equipment	-	0.1	-	-
Payments for intangible assets	(0.7)	(0.5)	-	-
Payments for investment properties	(169.4)	(50.3)	(155.5)	(4.2)
Payments for equity-accounted investments	-	(9.2)	-	-
Payments for acquisitions of non-controlling interests	(0.8)	(0.4)	-	-
Payments for investments	(61.5)	-	(37.1)	-
Loans to related parties	-	-	(34.7)	(0.4)
Repayment of loans by related parties	-	-	217.8	31.3
Net cash flows (used in)/from investing activities	**(258.3)**	**(60.8)**	**(9.5)**	**26.7**
Cash flows from financing activities				
Proceeds from issue of securities	126.1	-	37.2	-
Costs associated with issue of securities	(1.9)	-	0.1	-
Payments for securities bought back	(10.7)	(2.7)	(2.0)	(0.8)
Dividends and distributions paid	(43.5)	(25.8)	(43.5)	(25.8)
Proceeds from borrowings	216.8	165.1	-	-
Repayment of borrowings	(180.0)	(316.6)	-	-
Net cash flows from/(used in) financing activities	**106.8**	**(180.0)**	**(8.2)**	**(26.6)**
Net (decrease)/increase in cash and cash equivalents	(1.5)	7.6	-	(0.3)
Cash and cash equivalents at the beginning of the period	34.9	32.9	-	0.3
Cash and cash equivalents at the end of the period	**33.4**	**40.5**	**-**	**-**

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Aveo Group (the 'Group') is domiciled and incorporated in Australia. Aveo Group's registered office and its principal place of business is Level 5, 99 Macquarie Street, Sydney, New South Wales. The financial report of Aveo Group consists of the financial statements of the Group comprising Aveo Group Limited ('Parent') and its controlled entities and Aveo Group Trust ('Trust') and its controlled entities ('Trust Group'). The financial report has been drawn up in accordance with ASIC Corporations (Stapled Group Reports) Instrument 2015/838 relating to combining accounts under stapling. The financial report is presented in Australian dollars.

The significant accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

This interim financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and *AASB134 Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Aveo Group during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

Stapling

On 12 November 2004, Aveo Group Trust units were stapled to Aveo Group Limited shares. The Group is a stapled entity that comprises Aveo Group Limited and its subsidiaries and Aveo Group Trust and its subsidiaries. The stapled securities cannot be traded or dealt with separately.

The constitutions of the Parent and the Trust ensure that, for as long as the two entities remain jointly quoted on the Australian Securities Exchange, the number of units in the Trust and the number of shares in the Parent shall be equal and that unitholders and shareholders will be identical.

Aveo Group Limited has been identified as the acquirer and the parent for the purposes of preparing the Group's financial statements. The Trust has been consolidated under the stapling arrangement and is identified as the acquiree.

The net assets of the acquiree have been identified as non-controlling interests and presented in the balance sheet within equity, separately from the Parent's equity. The profit of the acquiree has also been separately disclosed in the income statement.

Although the interests of the equity holders of the acquiree are treated as non-controlling interests, the equity holders of the acquiree are also the equity holders in the acquirer by virtue of the stapling arrangement.

(b) New accounting standards and interpretations

The Group has adopted as of 1 July 2016 all of the new and revised Standards and Interpretations issued by the AASB. The adoption of the new and revised Standards and Interpretations had no material impact on the financial position or performance of the Group.

2. FINANCE COSTS

The Group's gross borrowing costs for the half year-ended 31 December 2016 were $9.7 million (31 December 2015: $6.5 million).

During the half-year ended 31 December 2016, all of the Group's borrowing costs related to the acquisition and construction of qualifying assets. As required by *AASB 123 – Borrowing Costs*, borrowing costs of $9.6 million (31 December 2015: $6.5 million) were capitalised to inventory and investment property.

3. INCOME TAX EXPENSE

	Group For the half-year ended		Trust Group For the half-year ended	
	31 Dec 2016 $m	31 Dec 2015 $m	31 Dec 2016 $m	31 Dec 2015 $m
Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated at the statutory income tax rate				
Accounting profit before income tax	143.5	89.3	6.7	9.6
Income tax at the Australian tax rate of 30% (31 Dec	43.1	26.8	2.0	2.9
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income				
Non-assessable Trust Group income	(2.0)	(2.9)	(2.0)	(2.9)
Recognition of previously unrecognised deferred tax assets less derecognition of previously recognised deferred tax asset	(3.1)	-	-	-
Gain on acquisition of Retirement Villages Group	(15.8)	-	-	-
Equity accounted losses/(profits)	0.7	(1.4)	-	-
Other	1.2	0.8	-	-
Income tax expense	**24.1**	**23.3**	**-**	**-**

4. INVENTORIES

	Group		Trust Group	
	31 Dec 2016 $m	30 Jun 2016 $m	31 Dec 2016 $m	30 Jun 2016 $m
Current				
Residential Communities				
Cost of land acquisition	38.6	47.9	-	-
Development and other costs	62.8	64.9	-	-
Interest capitalised	67.4	75.1	-	-
Impairment provision	(32.0)	(40.2)	-	-
	136.8	147.7	-	-
Residential Apartments				
Cost of land acquisition	10.2	0.4	-	-
Development and other costs	5.6	12.1	-	-
Interest capitalised	8.0	3.0	-	-
Impairment provision	(0.2)	(2.2)	-	-
	23.6	13.3	-	-
Commercial				
Cost of land acquisition	0.8	0.8	-	-
Development and other costs	0.9	0.9	-	-
Interest capitalised	0.3	0.3	-	-
Impairment provision	(0.2)	(0.2)	-	-
	1.8	1.8	-	-
Total current inventories	**162.2**	**162.8**	**-**	**-**
Non-current				
Residential Communities				
Cost of land acquisition	101.5	107.8	-	-
Development and other costs	12.9	20.8	-	-
Interest capitalised	30.0	41.4	-	-
Impairment provision	(91.1)	(96.7)	-	-
	53.3	73.3	-	-
Commercial				
Cost of land acquisition	3.7	13.5	-	-
Development and other costs	6.7	33.7	-	-
Interest capitalised	6.9	14.7	-	-
Impairment provision	(6.1)	(22.7)	-	-
	11.2	39.2	-	-
Total non-current inventories	**64.5**	**112.5**	**-**	**-**

5. INVESTMENT PROPERTIES

	Group		Trust Group	
	31 Dec 2016 $m	30 Jun 2016 $m	31 Dec 2016 $m	30 Jun 2016 $m
Valuation reconciliation				
Carrying amount of investment properties	5,311.9	3,330.8	229.1	89.0
Less:				
Resident loans	(2,881.3)	(1,519.4)	-	-
Deferred revenue	(165.1)	(115.4)	-	-
Deferred payment for development land	(59.0)	(62.3)	(7.5)	(7.0)
Valuation	**2,206.5**	**1,633.7**	**221.6**	**82.0**
Comprising:				
Retirement:				
Net present value of annuity streams - units sold or leased	1,580.0	1,157.6	88.8	-
New and buyback units available for occupancy	202.6	143.8	4.1	-
Under construction	255.6	180.8	128.7	82.0
	2,038.2	1,482.2	221.6	82.0
Commercial and retail properties	168.3	151.5	-	-
	2,206.5	**1,633.7**	**221.6**	**82.0**

6. EQUITY-ACCOUNTED INVESTMENTS

(a) Ownership interests

Details of ownership interests in material equity-accounted investments are as follows:

Associate / joint venture	Country of incorporation / formation	Activity	Group		Trust Group	
			31 Dec 2016 %	30 Jun 2016 %	31 Dec 2016 %	30 Jun 2016 %
Associates						
Retirement Villages Group	Australia	Retirement village owner & operator	-	72.9	-	-

On 24 August 2016, the Group acquired the remaining 27.1% ownership interest in Retirement Villages Group and therefore Retirement Villages Group is no longer equity accounted. Refer to business combination at note 13 for further details.

(b) Carrying amounts

Details of the carrying amounts of equity-accounted investments are as follows:

	Group		Trust Group	
	31 Dec 2016 $m	30 Jun 2016 $m	31 Dec 2016 $m	30 Jun 2016 $m
Retirement Villages Group	-	267.0	-	-
Other associates	16.1	16.1	2.3	2.3
Joint ventures	10.9	18.7	10.9	11.3
	27.0	**301.8**	**13.2**	**13.6**

7. TRADE AND OTHER PAYABLES

	Group		Trust Group	
	31 Dec 2016 $m	30 Jun 2016 $m	31 Dec 2016 $m	30 Jun 2016 $m
Current				
Trade accounts payable	35.2	37.5	-	-
Other payables	37.8	46.0	2.5	4.3
Payable to Parent	-	-	18.2	16.1
Interest payable	1.9	1.8	-	-
Deferred payment for Freedom acquisition	4.7	-	-	-
Total current payables	**79.6**	**85.3**	**20.7**	**20.4**
Non-current				
Deferred payment for Freedom acquisition	16.4	30.9	-	-
Deferred payment for development land acquired	59.0	62.3	7.3	7.0
Total non-current trade payables	**75.4**	**93.2**	**7.3**	**7.0**

8. CONTRIBUTED EQUITY

	Aveo Group Limited for the half-year ended		Aveo Group Trust for the half-year ended	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	Number of ordinary shares		Number of units	
Issued capital				
Ordinary securities fully paid	581,337,672	515,185,999	581,337,672	515,185,999
Treasury securities	(4,351,082)	(1,730,380)	(4,351,082)	(1,730,380)
	576,986,590	**513,455,619**	**576,986,590**	**513,455,619**
Movements in securities on issue				
Ordinary securities fully paid				
Balance at beginning of period	543,224,107	515,430,885	543,224,107	515,430,885
Securities issued	38,113,565	-	38,113,565	-
Securities bought back and cancelled	-	(244,886)	-	(244,886)
Balance at end of period	581,337,672	515,185,999	581,337,672	515,185,999
Treasury securities				
Balance at beginning of period	(2,130,380)	(1,211,891)	(2,130,380)	(1,211,891)
Acquisition of treasury securities	(3,243,919)	(759,370)	(3,243,919)	(759,370)
Vesting of employee incentive securities	1,023,217	240,881	1,023,217	240,881
Balance at end of period	(4,351,082)	(1,730,380)	(4,351,082)	(1,730,380)

8. CONTRIBUTED EQUITY (continued)

	Attributable to the shareholders of Aveo Group Limited for the half-year ended		Attributable to the unitholders of Aveo Group Trust for the half-year ended	
	31 Dec 2016 $m	31 Dec 2015 $m	31 Dec 2016 $m	31 Dec 2015 $m
Movements in contributed equity				
Balance at beginning of period	1,178.1	1,122.0	687.0	663.0
Securities issued	90.6	-	38.9	-
Transaction costs for securities issued, net of income tax	(1.3)	-	(0.6)	-
Acquisition of treasury securities	(7.5)	(1.4)	(3.2)	(0.6)
Securities bought back and cancelled	-	(0.4)	-	(0.2)
Vesting of employee incentive securities	2.0	0.4	0.8	0.1
Balance at end of period	**1,261.9**	**1,120.6**	**722.9**	**662.3**

9. DIVIDENDS AND DISTRIBUTIONS

Details of dividends and distributions proposed or paid by the Group are:

	Cents per security	Total amount $m	Date of payment	Franked tax rate %	Percentage franked %
31 Dec 2016					
Dividends & distributions paid:					
2016 Final distribution	8.0	43.5	30 September 2016	-	-
	8.0	**43.5**			
31 Dec 2015					
Dividends & distributions paid:					
2015 Final distribution	5.0	25.8	30 September 2015	-	-
	5.0	**25.8**			

10. SEGMENT INFORMATION

Operating segments are identified based on internal reports that are regularly reviewed by the chief decision maker in order to allocate resources to the segment and assess its performance.

(a) Reportable segments

The Group is organised into two segments:

- Retirement, which develops and operates retirement villages and aged care facilities to produce rental and other income; and
- Non-Retirement, which develops residential, commercial and retail property. Developed residential property is sold, whilst developed commercial and retail property may be sold or held to produce rental income and capital appreciation.

Segment earnings before interest, tax, depreciation and amortisation (EBITDA), measured on an underlying profit basis, is the primary measure used to assess segment performance. Underlying profit is defined in the Directors' Report.

10. SEGMENT INFORMATION (continued)

(b) Segment revenues and results

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

	Retirement $m	Non-Retirement $m	Total Reportable Operating Segments $m	Non-allocated Items[2] $m	Group $m
31 Dec 2016					
Segment revenue					
Revenue from outside the Group[1]	71.1	126.0	197.1	(0.8)	196.3
Total segment revenue	**71.1**	**126.0**	**197.1**	**(0.8)**	**196.3**
Segment result					
Segment EBITDA[3]	45.7	31.0	76.7	(6.7)	70.0
Change in fair value of investment properties	19.7	4.5	24.2	-	24.2
Gain on acquisition of Retirement Village Group	52.6	-	52.6	-	52.6
Other	5.3	(7.1)	(1.8)	(0.4)	(2.2)
Statutory EBITDA[3]	123.3	28.4	151.7	(7.1)	144.6
Depreciation and amortisation	(0.7)	(0.1)	(0.8)	(0.3)	(1.1)
Net interest expense	-	-	-	-	-
Net profit/(loss) from continuing operations before income tax	**122.6**	**28.3**	**150.9**	**(7.4)**	**143.5**
Income tax expense					(24.1)
Net profit from continuing operations after income tax					**119.4**

1. Segment revenue represents an aggregation of sale of goods and construction contract revenue, revenue from rendering of services and other revenue. Each of these represents a separate line item on the face of the income statement.
2. Includes unallocated Corporate Services.
3. EBITDA is earnings before interest, income tax expense, depreciation and amortisation.

10. SEGMENT INFORMATION (continued)

	Retirement $m	Non-Retirement $m	Total Reportable Operating Segments $m	Non-allocated Items[2] $m	Group $m
31 Dec 2015					
Segment revenue					
Revenue from outside the Group[1]	45.9	238.0	283.9	0.1	284.0
Total segment revenue	**45.9**	**238.0**	**283.9**	**0.1**	**284.0**
Segment result					
Segment EBITDA[3]	29.1	37.1	66.2	(5.6)	60.6
Change in fair value of investment properties	2.8	17.6	20.4	-	20.4
Gain from sale of non-retirement asset	-	7.1	7.1	-	7.1
Share of non-operating loss of equity accounted investments	(1.9)	-	(1.9)	-	(1.9)
Other	-	4.2	4.2	-	4.2
Statutory EBITDA[3]	30.0	66.0	96.0	(5.6)	90.4
Depreciation and amortisation	(0.7)	(0.1)	(0.8)	(0.3)	(1.1)
Interest expense	-	-	-	-	-
Net profit/(loss) from continuing operations before income tax	**29.3**	**65.9**	**95.2**	**(5.9)**	**89.3**
Income tax expense					(23.3)
Net profit from continuing operations after income tax					**66.0**

1. Segment revenue represents an aggregation of sale of goods and construction contract revenue, revenue from rendering of services and other revenue. Each of these represents a separate line item on the face of the income statement.
2. Includes unallocated Corporate Services.
3. EBITDA is earnings before interest, income tax expense, depreciation and amortisation.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 the fair value is calculated using quoted prices in active markets.
Level 2 the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at reporting date, the Group's only material financial instruments measured at fair value were its resident loan obligations. These are classified as being in level 3 of this hierarchy, and are measured as the estimated liability at reporting date, as if the resident were to require repayment at that date. The inputs to this valuation process were:

- the original amount of each loan;
- the current market value of the retirement unit to which each obligation relates;
- the tenure to date of the resident; and
- the contractual obligations of the Group and the resident relating to sharing of capital gains and payment of deferred management fees.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table presents the changes in this liability for the half-year.

	Group for the half-year ended	
	31 Dec 2016 $m	31 Dec 2015 $m
Opening balance	1,519.4	1,290.5
Items recognised in profit or loss:		
Deferred management fees	(29.1)	(27.4)
Change in fair value of resident loans	124.1	12.0
Increase on business combination (note 13)	1,150.5	-
Net cash receipts on resident departures and arrivals	116.4	36.5
Closing balance	2,881.3	1,311.6

Resident loans are classified as level 3 in the fair value hierarchy. This means that a key assumption used in their valuation is not directly observable. This key assumption is the aggregate current market value of the occupied retirement units of $3,889.4 million (30 June 2016: $2,212.3 million). This was determined on the same basis as the market value of both occupied and unoccupied units used as an input to the fair value of retirement villages. If the value used for this input was 5% higher, the fair value of these loans would be $111.7 million higher (30 June 2016: $51.1 million higher), and the input was 5% lower, the fair value of these loans would be $116.4 million lower (30 June 2016: $55.6 million lower). The effect of changing that current market value on the fair value of the related investment properties would be greater.

The Trust Group has no financial instruments measured at fair value. The fair value of all other financial instruments approximates their carrying amount.

12. BORROWINGS

A syndicated bank facility drawn to $400.0 million expires on 24 December 2017 and consequently has been classified as current. The Group is well advanced in renewing the facility, and expects to complete this before 30 June 2017.

13. BUSINESS COMBINATION

On 24 August 2016, the Group acquired all of the issued securities of Retirement Villages Group (RVG) that it did not previously own, making RVG a wholly owned subsidiary of Aveo. RVG owns and operates, through arrangements with the Group, 28 retirement communities mainly in Sydney and Melbourne.

Previously, the Group held 72.9% of RVG, which it accounted for as an equity-accounted associate. On RVG becoming a subsidiary, the Group remeasured the previous equity-accounted carrying amount to fair value as follows:

	$m
Carrying amount	264.9
Fair value	305.3
Gain	40.4

The Group paid $100.2 million in cash for the remaining 27.1% of RVG that it did not already own. Part of this remaining interest (10%) was acquired by the Trust for $37.1m in cash. Transaction costs of $0.9 million were recognised in the income statement.

13. BUSINESS COMBINATION (continued)

The assets and liabilities recognised as a result of the acquisition, and the resulting discount on acquisition, are as follows:

	$m
Cash and cash equivalents	39.6
Trade and other receivables	10.9
Investment properties	1,580.6
Property, plant and equipment	0.9
Trade and other payables	(27.5)
Resident loans	(1,150.5)
Deferred revenue	(35.4)
Net identifiable assets	418.6
Less:	
Previously held equity interest (remeasured to fair value)	(305.3)
Purchase consideration	(100.2)
Discount on acquisition	13.1

The total net gain of $52.6 million recognised in the income statement comprises:

	$m
Gain on remeasurement of prior equity-accounted investment to fair value	40.4
Discount on acquisition	13.1
Transaction costs	(0.9)
	52.6

RVG contributed revenues of $18.0 million and net profit of $38.4 million (including gain on change in fair value of investment properties and income tax expense totalling $24.6 million) to the Group for the period from 24 August 2016 to 31 December 2016.

In the opinion of the Directors of Aveo Group Limited and Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust (collectively referred to as 'the Directors'):

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's and the Trust Group's financial position as at 31 December 2016 and of their performance, for the half-year ended on that date; and

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

(b) there are reasonable grounds to believe that the Group and the Trust Group will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:

S H Lee
Chairman

G E Grady
Executive Director & Chief Executive Officer

Sydney
15 February 2017

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent review report to the security holders of Aveo Group

Aveo Group comprises Aveo Group Limited and the entities it controlled at the half-year end or from time to time during the half-year ("Aveo" or "the Group") and Aveo Group Trust and the entities it controlled at the half-year end or from time to time during the half-year ("Trust Group").

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Aveo Group, which comprises the consolidated balance sheets as at 31 December 2016, the consolidated income statements, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Group.

Directors' Responsibility for the Half-Year Financial Report

The directors of Aveo Group Limited and the directors of Aveo Funds Management Limited as Responsible Entity for the Aveo Group Trust (collectively referred to as "the Directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aveo Group and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

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

a) giving a true and fair view of the consolidated Group and Trust Group's financial position as at 31 December 2016 and of their performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Douglas Bain
Partner
Sydney
15 February 2017